

**IN THE TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

**PETITION TO OPEN AN
INVESTIGATION TO DETERMINE
WHETHER ATMOS ENERGY CORP.
SHOULD BE REQUIRED BY THE TRA
TO APPEAR AND SHOW CAUSE THAT
ATMOS ENERGY CORP. IS NOT
OVEREARNING IN VIOLATION OF
TENNESSEE LAW AND THAT IT IS
CHARGING RATES THAT ARE JUST
AND REASONABLE**

DOCKET NO. 05-0025

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**CONSUMER ADVOCATE'S PETITION TO OPEN AN INVESTIGATION TO
DETERMINE WHETHER ATMOS ENERGY CORPORATION SHOULD BE
REQUIRED BY THE TRA TO APPEAR AND SHOW CAUSE THAT ATMOS ENERGY
CORPORATION IS NOT OVEREARNING IN VIOLATION OF TENNESSEE LAW
AND THAT IT IS CHARGING RATES THAT ARE JUST AND REASONABLE**

INTRODUCTION

**ATMOS IS OVERCHARGING TENNESSEE
CUSTOMERS BY AT LEAST \$10 MILLION**

The Consumer Advocate and Protection Division of the Office of the Attorney General has recently completed a review of the rates charged by Atmos Energy Corporation for natural gas and has determined that these rates are too high and violate Tennessee law. Tennessee law allows gas companies to earn a fair rate of return from their business. According to the Consumer Advocate's review, however, Atmos is receiving far more than a fair rate of return and should return at least \$10 million annually to its customers in the form of lower prices.

Gas companies such as Atmos have a monopoly on service in their territories; no other gas company can operate in the same market. Since there is no competition to control the prices of such companies, Tennesseans look to the Tennessee Regulatory Authority ("TRA") to set the prices the public will pay. The Consumer Advocate, therefore, is calling on the TRA to ensure that Tennessee consumers pay no more than the "just and reasonable" rates allowed under Tennessee law.¹

¹Tennessee law requires the TRA to set prices that are "just and reasonable" to both the company and the customer. A rate is said to be "just and reasonable" if it allows a company to earn a fair "rate of return" on the money invested in providing gas service. Thus, if a company invested \$100 million to provide gas in Tennessee, and the TRA had set a "rate of return" of 6%, that company could earn up to \$6 million annually without being liable for overcharging customers.

An important component in determining the percentage of the rate of return is the figure known as the company's "return on equity." In order to get money to invest in its operations, a company sells stock or equity. The purchaser of this stock or equity expects a certain return and this amount, expressed as percentage, is the "return on equity" or "ROE." If an investor believes that a company is risky, he or she will expect a higher return on equity to compensate for the higher risk. As set forth in the attached Testimony of Dr. Steve Brown, Atmos is not a risky company but it is earning in Tennessee a higher return on equity than more risky companies. Exhibit A, Testimony of Dr. Steve Brown at page 7.

When the TRA sets a company's authorized rate of return, the TRA bases that rate of return on an expected return on equity. That is, the TRA determines how much a company should earn on its investment in the utility's facilities. In general, if a company is overearning and is exceeding its authorized rate of return, its return on equity will also be higher than the figure used by the TRA in setting the rate of return. If a company has just and reasonable rates for its customers, the company will earn a just and reasonable rate of return, and the company's investors will receive a just and reasonable return on their equity investment. If, on the other hand, a company is charging rates that are too high and are not just and reasonable, the company will be overearning its authorized rate of return, and its investors will be receiving a very high return on equity.

In the most recent case involving a natural gas company, the TRA determined that a rate of return of 7.43% was just and reasonable for Chattanooga Gas, TRA Docket 04-00034. Exhibit B, Testimony of Dan McCormac at page 7. Based on documents filed with the TRA by Atmos itself, Atmos is earning a rate of return of 11.02%, as of September 30, 2004 (the last full fiscal year of SEC-audited financial information). Exhibit B, Testimony of Dan McCormac at page 1. This translates into an overearning of some \$10 million per year. Exhibit B, Testimony of Dan McCormac at page 1. The decision in the Chattanooga Gas case was upheld by the TRA on June 13, 2005. Exhibit B, Testimony of Dan McCormac at page 7.

In that same Chattanooga Gas case before the TRA, the Authority determined that a 10.2% return on equity was just and reasonable. In contrast, the Consumer Advocate believes that Atmos is currently exceeding a 14% return on equity. Exhibit A, Testimony of Dr. Steve Brown at page 3.

In addition, the Consumer Advocate's review, set forth in the attached Testimony of Dr. Steve Brown, shows that Atmos's return on equity is 1.4 times higher than the normal return of all companies listed on the New York Stock Exchange and 2 times higher than the normal return of publicly traded companies located in Tennessee ("normal" is defined as the mid-point, half way between the highest and lowest figures). Exhibit A, Testimony of Dr. Steve Brown at pages 3-7 and Chart 2 of 6 and Chart 3 of 6.

Besides return on equity, another important component in calculating a "fair rate of return" is a company's "cost of debt" (the amount of interest and financing charges a company pays to lenders for borrowing money). The Consumer Advocate's investigation demonstrates that Atmos consistently has taken advantage of lower interest rates to reduce its actual debt costs. However, the prices charged to consumers — prices that have been in place for the past ten years — have not been reduced to reflect Atmos's cheaper cost of debt. Exhibit A, Testimony of Dr. Steve Brown at page 7 and Chart 6 of 6.

At this time, it is widely anticipated that prices for natural gas will rise dramatically for the coming heating season. Under current TRA practice, gas companies are allowed to “pass through” the price the companies pay for gas from their wholesalers, no matter how high the cost; the gas company is then allowed to earn a reasonable rate of return over and above the cost of that gas. The Consumer Advocate, therefore, urges the TRA not to allow the potentially devastating effect of this expected price rise to be compounded by allowing Atmos to earn an excessive amount over and above the cost of gas.

WHY A SHOW CAUSE PROCEEDING IS NECESSARY IN THIS CASE

In order to establish the full amount that Atmos is overcharging Tennessee consumers, the Consumer Advocate is asking the TRA to initiate a “show cause” proceeding. In a “show cause” proceeding the TRA, after an investigation and on its own initiative, would issue an order requiring Atmos to appear and “show cause” why its rates should not be reduced to the level permissible under Tennessee law. The Consumer Advocate believes that the information contained in this Petition offers a compelling basis for the TRA to undertake such an investigation.

A show cause proceeding is especially appropriate in this case because the information necessary to determine how much Atmos is overcharging Tennessee consumers is within Atmos’s custody and control, not the Consumer Advocate’s or the TRA’s.

Furthermore, as a monopoly utility which has been granted an exclusive franchise to serve its customers, it should be up to Atmos to prove that its rates are just and reasonable. Neither consumers nor the Consumer Advocate should be required to file a complaint and attempt to compile the information necessary to put on a rate case. After all, the rates are Atmos’s, not the Consumer Advocate’s, and it is Atmos’s responsibility under Tennessee law to charge consumers no more than what is just and reasonable. Atmos, therefore, should not be permitted to claim the privileges of a

monopoly without also accepting the associated obligations, including the duty to charge just and reasonable rates.

There is ample authority for the TRA to use a show cause proceeding to ensure that the rates charged to Tennessee consumers are just and reasonable. The TRA's predecessor, the Public Service Commission, used a show cause proceeding to force telephone companies to lower rates, in an action recognized by the Tennessee Court of Appeals as "protecting the interests of the public."² And, more recently, the TRA issued a show cause order in a case involving a company known as Durashield for violations of the Tennessee Do Not Call law, TRA Docket 05-00233.

Similarly, the Consumer Advocate is now asking the TRA to be equally pro-active in "protecting the interests of the public" who buy natural gas from Atmos. Such action is especially warranted during this time when consumers may be burdened with record-breaking natural gas prices. There has been no TRA review of Atmos's rates in over ten years; the last "Atmos" rate case

²In Re Show Cause Proceeding to Amend the Billing and Collection Tariffs of South Central Bell, United Inter-Mountain and General Telephone Companies, 779 S W 2d 375 (Tenn. Ct. App. 1989). In this case, the Tennessee Court of Appeals upheld the decision of the Public Service Commission (the predecessor of the TRA) to use of a show cause proceeding to reduce certain telephone rates. The issue in that proceeding involved the billing practices of certain entities known as alternate operator service providers (AOS's). In Re Show Cause Proceeding at 376. At certain locations such as hospitals, hotels, motels, and universities, the owners of the locations contracted with alternate operator service providers (AOS's) to handle non-local, operator-assisted calls. Id. at 376. In the past, virtually all such calls had been handled by AT&T. Id.

Most of the AOS's charged more than AT&T for similar service on non-local operator-assisted calls, furthermore, most callers did not realize they were using AOS's rather than AT&T. In Re Show Cause Proceeding at 378. In short, when a consumer placed a long distance call from certain buildings or institutions, that customer found that he or she was using an unknown company for operator services and that the cost of these services exceeded those usually charged. Accordingly, complaints were made to the PSC about the AOS's and their high charges.

As a result of these pervasive problems, the PSC issued an order pursuant to T.C.A. § 65-2-106 (1982) directing the LEC's to amend their billing procedures or to appear and show cause why such amendment should not be made. That order was issued on February 4, 1988, and directed South Central Bell (SCB), United Inter-Mountain (UIM) and General Telephone Company (GTC) to deny provision of billing services to any AOS unless (1) the AOS establishes an account with the end user or (2) charges rates no higher than the highest intrastate tariff rates for a comparable operator assisted call.

In re Show Cause Proceeding at 378

The legal and historical precedent of In Re show Cause Proceeding is clear when Tennessee consumers were faced with higher than just and reasonable rates for certain telephone calls, the TRA's predecessor, the Public Service Commission, acted through a show cause proceeding "in protecting the interests of the public." In Re Show Cause Proceeding at 382.

was in 1995 when the company was named United Cities Gas Company and was a far smaller company than exists today. The material filed in this Petition clearly shows that Atmos is overcharging Tennessee consumers. The Consumer Advocate, therefore, requests that the TRA conduct an investigation into these overcharges, starting with the information provided by the Consumer Advocate, and, on the TRA's own motion, institute a show cause proceeding.

PETITION

Comes Paul G. Summers, the Attorney General for the State of Tennessee, through the Consumer Advocate and Protection Division of the Office of the Attorney General (hereinafter "Consumer Advocate"), pursuant to Tenn. Code Ann. § 65-4-118(b)(1), § 65-2-106, and § 65-5-101, and hereby petitions the Tennessee Regulatory Authority ("TRA") to open an investigation in order to determine whether Atmos Energy Corporation ("Atmos") should be required by the TRA on its own motion to appear and show cause that Atmos is not overearning in violation of Tennessee law and that it is charging rates to Tennessee consumers that are just and reasonable. The Consumer Advocate maintains and submits proof herein that Atmos is currently overearning and is charging rates that are not just and reasonable. Accordingly, the Consumer Advocate asks the TRA on its own motion to require Atmos to appear and show cause that it is not overearning and that its rates are just and reasonable. If, after a show cause proceeding, the TRA determines that Atmos is overearning and that its rates are not just and reasonable, the TRA should reduce Atmos's rates to a just and reasonable level and eliminate any excessive earnings.

The Consumer Advocate previously filed a Petition to Require Atmos Energy Corporation to Appear and Show Cause That Its Rates Are Just and Reasonable and That It Is Not Overearning in Violation of Tennessee Law on October 15, 2004. That Petition was denied by the TRA. The present Petition differs from the prior one in that the Consumer Advocate is now more explicitly

setting out the procedure it is asking the TRA to follow. In particular, the Consumer Advocate is asking the TRA to first conduct an investigation based on the allegations and proof that the Consumer Advocate is offering in this Petition, and then to open a show cause proceeding on the TRA's own motion. In addition, the present Petition contains proof not contained in the prior Petition; this proof overwhelmingly demonstrates that Atmos is overearning and that its rates are not just and reasonable. See Exhibit A, Testimony of Dr. Steve Brown; and Exhibit B, Testimony of Dan McCormac.

For cause, the Petitioner would show as follows:

1. The Consumer Advocate is authorized by Tenn. Code Ann. § 65-4-118(b)(1) to represent the interests of Tennessee consumers by participating or intervening in any matter or proceeding before the TRA and initiate such proceedings in accordance with the Uniform Administrative Procedures Act ("UAPA") and TRA rules.

2. Atmos is a utility regulated by the Tennessee Regulatory Authority, offering natural gas service to Tennessee consumers in the following counties: Bedford County, Blount County, Carter County, Greene County, Hamblin County, Hancock County, Hawkins County, Johnson County, Maury County, Moore County, Obion County, Rutherford County, Sullivan County, Washington County, and Williamson County. Exhibit A, Testimony of Dr. Steve Brown at page 9 and Schedule 1.

3. The Legislature created the Tennessee Regulatory Authority to protect consumers from being charged excessive and unreasonable rates for regulated utilities operating in Tennessee. When there is proof that the rates of a regulated utility are unjust and unreasonable, as the Consumer Advocate shows herein, the TRA must exercise its power to set rates that are just and reasonable pursuant to Tenn Code Ann. § 65-5-101. If the Authority fails to expeditiously set just and

reasonable rates, it will unduly prejudice Tennessee consumers and cause them to suffer irreparable harm.

I. RECENT TRA RATE CASES ESTABLISH THAT ATMOS IS OVEREARNING AND CHARGING RATES THAT ARE NOT JUST AND REASONABLE.

A. Chattanooga Gas Rate Case (2004), TRA Docket 04-00034.

4. Atmos's own financial data, and a recent TRA decision regarding another natural gas company, Chattanooga Gas Company, demonstrate clearly and unmistakably that rates to Tennessee consumers charged by Atmos have been and will continue to be excessive, unjust and unreasonable.

5. On August 30, 2004, the Authority granted a **7.43** percent fair rate of return to Chattanooga Gas Company for its investments in Tennessee, in TRA Docket No. 04-00034. Exhibit B, Testimony of Dan McCormac at page 7. The decision in this Chattanooga Gas case was upheld by the TRA on June 13, 2005 after a Motion to Reconsider filed by Chattanooga Gas. Exhibit B, Testimony of Dan McCormac at page 7.

6. Based on the Form 3.03 filed with the TRA for September 30, 2004, Atmos was earning a rate of return of **11.02** percent on its investments in Tennessee as of the twelve-month period ending September 30, 2004 (the last full fiscal year of SEC-audited financial information). Exhibit B, Testimony of Dan McCormac at page 1.

7. Thus, Atmos's current rate of return in Tennessee is not a fair rate of return because it grossly exceeds what the TRA has recently determined to be a fair rate of return (**11.02/7.43**). At the very least, this disparity in rates of return call for an inquiry by the TRA in the form of the show cause proceeding requested by the Consumer Advocate.

8. The Consumer Advocate has a legislated responsibility to request a rate reduction to a "fair and reasonable" level. Tenn. Code Ann. § 65-4-118. If Atmos's rate of return was 0%

instead of 11.02%, there is no doubt that it would be seeking a change in rates to provide a “fair and reasonable rate of return” for its stockholders. Exhibit B, Testimony of Dan McCormac at pages 2 and 5. The Consumer Advocate believes that Atmos is overcharging Tennessee Consumers approximately \$10.2 million per year. The calculations underlying this figure of \$10.2 million are fully set forth in the testimony of Dan McCormac and Dr. Steve Brown filed in support of this Petition. Consumer Advocate experts Dan McCormac and Dr. Steve Brown have studied financial data from Atmos and other companies in their review of Atmos’s earnings that forms the basis for the Consumer Advocate’s request for the TRA to initiate a show cause proceeding. Based on his review of Atmos and numerous other companies, Dr. Steve Brown has calculated that 8.2% is a reasonable figure for Atmos’s cost of equity. Exhibit A, Testimony of Dr. Steve Brown at page 3 and Schedule 11. Consumer Advocate expert Dan McCormac has calculated that when using Dr. Steve Brown’s figure for cost of equity of 8.2%, Atmos is overcharging Tennessee consumers \$10.2 million per year. Exhibit B, Testimony of Dan McCormac at page 1 and Schedule 1. Furthermore, even if the TRA finds that the cost of equity should be as high as 10.2%, Atmos is overcharging \$8.1 million. Exhibit B, Testimony of Dan McCormac at pages 1-2.

9. Revising Atmos’s tariffs to incorporate a fair rate of return will lower Atmos’s prices for natural gas service for consumers in Bedford County, Blount County, Carter County, Greene County, Hamblin County, Hancock County, Hawkins County, Johnson County, Maury County, Moore County, Obion County, Rutherford County, Sullivan County, Washington County, and Williamson County. Exhibit A, Testimony of Dr. Steve Brown at page 9 and Schedule 1.

10. The Consumer Advocate has prepared a Schedule that shows Atmos is overcharging Tennessee consumers approximately \$27,000 per day when the cost of equity is based on the 8.2% figure proposed by Dr Brown. Exhibit B, Testimony of Dan McCormac at page 2 and Schedule 1.

B. Tennessee American Water Rate Case (2004), TRA Docket 04-00288

11. In a recent case involving Tennessee American Water Company, TRA Docket 04-00288, the TRA found that an overall rate of return on rate base of 7.76% was just and reasonable and that a return on equity of 9.9% was just and reasonable. Atmos is currently exceeding both of these figures. Exhibit B, Testimony of Dan McCormac at page 7.

C. Nashville Gas Rate Case (2003), TRA Docket 03-00313

12. In the most recent case involving Nashville Gas, TRA Docket 03-00313, the TRA found that an overall rate of return on rate base of 8.42% was just and reasonable. Atmos is currently exceeding this figure. Exhibit B, Testimony of Dan McCormac at page 7.

II. ATMOS'S DEBT COSTS HAVE DECLINED SINCE 1995 BUT THESE LOWER COSTS HAVE NOT BEEN PASSED ON TO CONSUMERS.

13. An important component in calculating a fair "rate of return" is a company's "cost of debt" (the amount of interest and financing charges a company pays to lenders for borrowing money).

14. The Consumer Advocate's investigation demonstrates that Atmos consistently has taken advantage of lower interest rates to reduce its actual debt costs. However, the prices charged to consumers — prices that have been in place for the past ten years — have not been reduced to reflect Atmos's cheaper cost of debt. Exhibit A, Testimony of Dr. Steve Brown at page 7 and Chart 6 of 6.

15. The testimony of Dr. Steve Brown establishes that Atmos continually incorporated low interest rates into its business operations every year since 1995. Exhibit A, Testimony of Dr. Steve Brown at page 7 and Chart 6 of 6. Although the company said its interest cost would be 9.67 percent by November 1996, the actual interest costs were always lower: 8.9 percent in 1998, 7.5 percent by 2001, and 6.8 percent by 2004 (this data is from the company's annual SEC 10-K forms

from 1995 through 2004). Exhibit A, Testimony of Dr. Steve Brown at page 7 and Chart 6 of 6.

III. ATMOS'S ATTEMPT TO USE AN OUTDATED AUTHORIZED RATE OF RETURN FOR UNITED CITIES GAS — A COMPANY WITH MUCH SMALLER REVENUES AND A MUCH DIFFERENT CAPITAL STRUCTURE — ACQUIRED BY ATMOS IS UNJUSTIFIED.

16. It is anticipated that Atmos will allege that it is earning within its authorized rate of return. The rate of return referred to by Atmos, however, was set ten years ago for United Cities Gas Company, a company which since has been acquired by Atmos.

17. Atmos has larger revenues and a different capital structure from United Cities Gas Company. Exhibit B, Testimony of Dan McCormac at pages 7-8. Atmos, the company that currently exists and to which Tennessee consumers are currently paying their bills for natural gas, has never filed a rate case in Tennessee and an appropriate rate of return has never been set for Atmos as opposed to United Cities. Exhibit B, Testimony of Dan McCormac at pages 7-8.

18. In 2004, Atmos merged with the gas division of TXU. This created another opportunity for Atmos to reduce debt costs and increase earnings. Exhibit B, Testimony of Dan McCormac at page 8.

19. Just as Atmos has not reduced its rates to reflect lower debt costs, it also has not reduced its rates to reflect lower employee levels. Exhibit B, Testimony of Dan McCormac at pages 7-8.

IV. ATMOS IS EARNING MORE THAN THE AVERAGE OF COMPANIES THAT ARE PUBLICLY TRADED ON THE NYSE, NASDAQ, AMEX, AND OTC.

20. Atmos's return on equity is 1.4 times higher than the normal return of companies listed on the New York Stock Exchange ("NYSE") ("normal" is defined as mid-point, half way between the highest and lowest figures). Exhibit A, Testimony of Dr. Steve Brown at pages 3-7 and Chart 2 of 6.

21. Atmos's return on equity is 2 times higher than the normal return of companies listed on the National Association of Securities Dealers Automated Quotations ("NASDAQ") National Market and 2.3 times higher than the normal return for the NASDAQ Small Cap Market. Exhibit A, Testimony of Dr. Steve Brown at pages 3-7 and Chart 2 of 6.

22. Atmos's return on equity is 2.5 times higher than the normal return of companies listed on the American Stock Exchange ("AMEX"). Exhibit A, Testimony of Dr. Steve Brown at pages 3-7 and Chart 2 of 6.

23. Atmos's return on equity is 3 times higher than the normal return of companies traded in the Over the Counter ("OTC") market. Exhibit A, Testimony of Dr. Steve Brown at pages 3-7 and Chart 2 of 6.

24. Captive customers of a monopoly provider such as Atmos should not be paying rates that enable Atmos to pay substantially higher returns than much riskier companies that are publicly traded in national markets. Exhibit A, Testimony of Dr. Steve Brown at pages 3-7 and Chart 2 of 6 and Chart 4 of 6.

V. ATMOS IS EARNING MORE THAN MOST PUBLICLY TRADED TENNESSEE COMPANIES.

25. Atmos's return on equity for the past five fiscal years is often more than double the return of companies that file data with the SEC, have a Tennessee business address, and have publicly traded stock. Exhibit A, Testimony of Dr. Steve Brown at pages 6-7 and Chart 3 of 6.

26. Captive customers of a monopoly provider such as Atmos should not be paying rates that enable Atmos to pay higher returns on equity than such a high percentage of publicly traded Tennessee companies. Exhibit A, Testimony of Dr. Steve Brown at pages 6-7 and Chart 3 of 6.

Wherefore, the Petitioner prays the Authority to grant its request that the TRA open an investigation to determine on its own motion whether Atmos should be required to appear and show cause that it is not overearning in violation of Tennessee law and that it is charging rates that are just and reasonable, and grant such other relief as may be appropriate.


RESPECTFULLY SUBMITTED,



PAUL G. SUMMERS, B.P.R. #6285

Attorney General

State of Tennessee



VANCE L. BROEMEL, B.P.R. #11421

Assistant Attorney General

Office of the Attorney General

Consumer Advocate and Protection Division

P.O. Box 20207

Nashville, Tennessee 37202

(615) 741-8733

Dated: September 15th, 2005

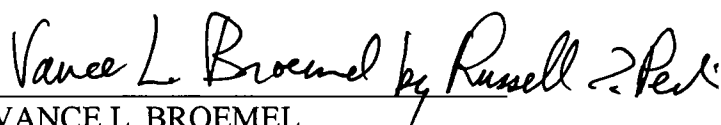
CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was served via hand delivery or facsimile on September 15th, 2005

Joe Conner
Baker, Donelson, Bearman & Caldwell
1800 Republic Centre
633 Chestnut Street
Chattanooga, Tennessee 37450-1800

Richard Collier, Esq.
General Counsel
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

Patricia J. Childers
VP - Regulatory Affairs
Atmos/United Cities Gas Corporation
810 Crescent Centre Drive, Suite 600
Franklin, Tennessee 37064-5393



VANCE L. BROEMEL
Assistant Attorney General

84682

EXHIBIT A

Before the

TENNESSEE REGULATORY AUTHORITY

IN RE:

**REQUEST FOR AN ADJUSTMENT OF THE RATES AND CHARGES OF
ATMOS ENERGY CORPORATION**

DOCKET NO. 05-

**DIRECT TESTIMONY
OF
STEVE BROWN**

September 14, 2005

I. Testimony

1
2
3
4 Q_1. Please state your name.

5
6 A_1. Steve Brown.

7
8 Q_2. Where do you work and what is your job
9 title?

10
11 A_2. I have been the Economist in the
12 Consumer Advocate and Protection
13 Division, Office of the Attorney
14 General since 1995. A statement of my
15 credentials appears later.

16
17 Q_3. In your opinion, are consumers paying
18 just and reasonable prices for natural
19 gas service from Atmos?

20
21 A_3. No. There's no doubt about it -- they
22 are paying unjust, unreasonable
23 prices. Atmos earns huge profits in
24 Tennessee, charging millions of
25 dollars more than needed for the
26 company to make a fair rate-of-profit
27 here. In the past 10 years Atmos's
28 profit rate has regularly reached 13
29 percent and twice exceeded 20 percent,
30 easily outperforming mainstream profit
31 levels in Tennessee's economy and the
32 national economy. The company's own
33 regulatory behavior proves the point:

In Tennessee, Atmos has resisted and avoided a rate case for over 10 years, a time two to five times longer than the length of the company's regular rate-case cycle, which the company disclosed in its United States Securities and Exchange Commission Form 10-K for the fiscal year ending September 30, 2000. Atmos knows it has lucrative profits in Tennessee.

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(MARK ONE)
☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2000

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 1-10042

ATMOS ENERGY CORPORATION
(Exact name of registrant as specified in its charter)

Atmos Stated In Its SEC Form 10-K For The Fiscal Year 2000

"In a general rate case, the applicable regulatory authority, which is typically the state public utility commission, establishes a base margin, which is the amount of revenue authorized to be collected from customers to recover authorized operating expense (other than the cost of gas), depreciation, interest, taxes and return on rate base. The Company's utility divisions perform annual deficiency studies for each rate jurisdiction to determine when to file rate cases, which are typically filed every two to five years."

Clearly, Tennessee is a state where Atmos never has had a discouraging return. Six color charts summarize the evidence.

1 My Chart 1 of 6 displays the enormous
2 equity returns that Atmos has garnered
3 from the handsome revenues provided by
4 Tennessee's consumers since 1995. The
5 chart's upper left-corner displays a quote
6 from the direct testimony filed in its
7 last rate case, in 1995, when United
8 Cities demanded an equity return between
9 13.0 percent and 13.5 percent. The chart's
10 upper right-corner displays my estimate of
11 the maximum fair rate-of-return that the
12 Authority should apply to Atmos, 8.2
13 percent, well below the 14.2 percent
14 equity return Atmos earned for the fiscal-
15 year ending September 2004 and well below
16 the 17 percent equity return I expect
17 Atmos to achieve as of September 2005.

18
19 The equity returns are displayed in my
20 Schedule 7 and calculated from the
21 company's own data reported in the
22 Authority's Form 3.03 and the company's
23 fiscal-year reporting in its annual 10-K
24 form filed with the United States
25 Securities and Exchange Commission. A CD
26 containing the source-data is filed with
27 this testimony.

28
29 My Chart 2 of 6 displays the equity
30 returns Atmos has taken from Tennessee in
31 the past five fiscal years and compares
32 them to the midpoint of equity returns
33 earned in American stock markets by nearly

1 5600 companies for each of the past five
2 fiscal years. Not surprisingly, Atmos's
3 profit in Tennessee is far better than the
4 normal profit level in all American stock
5 markets, including the New York Stock
6 Exchange (NYSE), the National Association
7 of Securities Dealers Automated Quotations
8 (NASDAQ), the American Stock Exchange
9 (AMEX), and the Over The Counter (OTC)
10 market. These equity returns are from the
11 MorningStar online-data-base which
12 maintains a five-year history of common
13 equity returns for companies throughout
14 the United States. These equity returns
15 are compiled from the annual SEC Form 10-K
16 which is attested to by auditors who have
17 verified the data in the report and which
18 each company files annually with the SEC.
19 Therefore, the profit rates for the NYSE,
20 NASDAQ, AMEX, and OTC markets represent
21 audited, verified data. The source-data is
22 filed with this testimony.

23
24 Chart 2 shows Atmos's profit-rates arching
25 over the normal ones throughout the stock
26 markets, but this is to be expected
27 because Atmos's last rate case was in
28 1995, a time when interest rates were very
29 high. CAPD asks the TRA to act quickly and
30 reduce Atmos's Tennessee-profits to a
31 reasonable level:
32

1 There is no good reason for Atmos to earn
2 equity returns beyond the norm in American
3 stock markets, where the driving economic
4 force is competition. Atmos is a gas-
5 distribution monopoly whose exclusive
6 franchises prevent consumers from
7 acquiring natural gas from any supplier
8 other than Atmos.

9
10 Chart 2 presents the TRA with an
11 opportunity to consider the broad national
12 economy as a factor in setting a fair rate
13 of profit for Atmos, and to step beyond
14 the circular economic argument often
15 advanced by the regulated monopoly: that
16 the TRA's decision on a rate-of-return
17 must be measured only by the decisions of
18 regulatory agencies in other states.

19
20 A rate-of-return decision regarding a
21 monopoly service provider must be
22 ultimately judged against the performance
23 of the competitive markets. When a
24 monopoly such as Atmos outperforms the
25 norms in the competitive economy, it's
26 clear the monopolist's return is
27 unreasonable. The TRA is the only state
28 agency in Tennessee with the power to cure
29 the unjust rates that Atmos is currently
30 imposing on ratepayers. In fact, Atmos's
31 equity returns are not only extreme in a
32 nation-wide context, but also in a state-
33 wide context.

1
2 My Chart 3 of 6 is a closer-to-home
3 comparison involving the Tennessee economy
4 and Atmos. In the chart, Atmos's equity
5 returns for the past five fiscal years are
6 compared to the equity returns of
7 corporations that file the 10-K form with
8 the SEC, that have a Tennessee-business
9 address, and that have publicly traded
10 stock. Not surprisingly, Chart 3 again
11 shows the Atmos returns arching over the
12 normal returns of Tennessee-businesses
13 contending in competitive markets. Atmos
14 continues to outperform the national stock
15 markets and the Tennessee-specific market,
16 sure proof that Tennesseans are paying
17 unjust and unreasonable rates for Atmos's
18 gas-distribution service. Each Tennessee
19 company's most recent SEC Form 10-K is
20 filed with this testimony.

21
22 Chart 4 of 6 displays the beta value for
23 Atmos versus the median and average betas
24 for each stock market and Tennessee-
25 specific market. Beta is a standard
26 measure of risk in the stock market - the
27 higher the beta the higher the risk.
28 Atmos's current beta is just .04, well
29 below the rest of betas. The source-data
30 is filed with this testimony.

1 In contrast to the earlier charts, this
2 chart shows the national market betas and
3 the Tennessee-specific betas arching over
4 the beta for Atmos. Atmos is not a risky
5 company in comparison to the other
6 markets. The chart demonstrates Atmos's
7 peculiar situation in the Tennessee
8 economy: a very safe natural-gas-
9 distribution monopoly achieves a very high
10 return in comparison to the riskier
11 companies.

12
13 Chart 5 of 6 is one more demonstration of
14 Atmos's peculiar situation. The chart
15 shows how far out-of-line Atmos returns
16 are in comparison the TRA's recent
17 regulatory decisions. Thus, Atmos's
18 financial performance in Tennessee is not
19 only peculiar in the national and
20 Tennessee economies, Atmos is peculiar in
21 comparison to the TRA's own regulatory
22 decisions.

23
24 Chart 6 of 6 shows Atmos continually
25 incorporating low interest rates into its
26 business operations every year since 1995.
27 Although the company's predecessor
28 predicted an interest cost of 9.67 percent
29 by November 1996, the actual costs were
30 always lower: 8.9 percent in 1998, 7.5
31 percent by 2001, and 6.8 percent by 2004.
32 The data is from the company's annual SEC
33 10-K forms from 1995 through 2004.

On May 15, 1995 Atmos's predecessor filed a rate case with the TRA's predecessor, the Tennessee Public Service Commission. Below is the capital structure and weighted capital cost which were filed, which even today is the basis for the unjust and unreasonable rates Atmos is charging Tennessee's consumers:

Atmos/United Cities Capital Structure And Interest Cost: Filed May 15, 1995			
Capital Structure Catagories	Proportion In Capital Structure	Interest Cost	Weighted Cost
Common Equity	44.01%	13.25%	5.83%
Long-Term Debt	48.67%	9.67%	4.71%
Short-Term Debt	7.32%	8.50%	0.62%
Atmos Wanted This Return In Tennessee		→	11.16%

Even today Atmos achieves the return desired in May 1995. Atmos's TRA Form 3.03 for the period ending September 30, 2004 shows the company achieving an overall return of 11.02% in Tennessee, reason enough for Atmos to resist having a rate case in Tennessee. Atmos's TRA's Form 3.03 for September 30, 2004:



December 7, 2004

Office of the Attorney General
Consumer Advocate and Protection Division
425 Fifth Avenue North, 2nd Floor
Nashville, TN 37243-0491

RECEIVED
DEC 10 2004
STAFF LIAISON
CONSUMER ADVOCATE & PROTECTION

Dear Sirs

Please find enclosed our Form PSC - 3 03 for the month of September 2004
Footnotes have been included with this report

Should you have any questions, please contact me at 261-2270.

Sincerely,

1
2
3
4
5
6
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11
12
13
14
15
16
17

24	Rate of Return (L23 by L15) *(See attached Footnotes)	<u>11.02%</u>
----	--	---------------

Clearly, there is little difference
between the current return and what was
desired in May 1995.

Schedule 1 uses U.S. Census Bureau data to
identify by city and income in Tennessee
those households bearing the burden of
Atmos's enormous returns. Without a speedy
rate-reduction, these ratepayers will
never benefit from the lower-interest-
costs that have aided the rest of
Tennessee's economy.

Interest costs have declined throughout the economy: Schedule 2 displays press releases from the United States' Bureau of Public Debt, showing the federal government recalling bonds with interest rates which the government described as "above the current cost of securing financing for the five years remaining to maturity." In each case the interest rates are well below the interest rates filed by on May 15, 1995, and near Atmos's actual interest rates shown in Chart 5.

Schedule 3 displays certain pages of the 2002 and 2004 "Economic Report To The Governor Of The State Of Tennessee," and demonstrates that low interests are considered an economic benefit to the Tennessee economy. These benefits have been withheld from Atmos's ratepayers because Atmos's rates have not been lowered to reflect the generally lower interest cost throughout Tennessee's economy and the national economy.

Schedule 4 displays the Tennessee companies that were utilized to develop parts of Chart 3 and Chart 4.

1 Schedule 5 displays the opening page of
2 the MorningStar online-data-base and shows
3 that the data is fiscal-year data. As I
4 have already said, the equity returns are
5 compiled from the SEC Form 10-K which is
6 fiscal-year data which companies file
7 annually with the SEC. As I have already
8 stated, the files containing the
9 MorningStar and Yahoo data which I utilize
10 are filed with this testimony.

11
12 Schedules 7 and 8 display the capital-
13 structure and cost data I acquired from
14 Atmos/United Cities 10-K filings with the
15 SEC. Those forms are also filed with this
16 testimony.

17
18 Schedule 9 displays the capital structures
19 for the comparable companies which were
20 utilized in the TRA's most-recent
21 contested rate case. In that case Atmos
22 was one of 10 companies comparable to AGL
23 Resources. I have used AGL Resources
24 instead of Atmos as one of the 10
25 comparable companies. Otherwise the list
26 of comparable companies is the same as I
27 presented in the most-recent contested
28 rate case. The 10-K filings made by these
29 companies are also filed with this
30 testimony.

1 Schedule 10 is a summary of the capital
2 structure that I use to calculate the
3 current capital structure and costs that,
4 in my opinion, are the bases for just and
5 reasonable rates to ratepayers.
6

7 Schedule 11 is a Discounted Cash Flow
8 (DCF) analysis yielding the maximum profit
9 rate, 8.2 percent, that Atmos should
10 receive in current market conditions. For
11 each company the DCF analysis adds the
12 stock's dividend yield, [the amount of the
13 dividend per share of stock divided by the
14 current price of the stock] to the
15 dividend's expected growth rate. The
16 result is the expected profit rate. The
17 data sources for the DCF are also filed
18 with this testimony. This completes my
19 testimony at this time
20

21 **II. Statement of Credentials and** 22 **Experience**

23
24 **Q_4. What experience do you have regarding**
25 **utilities?**

26
27 **A_4. In 1995 I began work as an economist**
28 **in the Consumer Advocate and**
29 **Protection Division (CAPD) of the**
30 **Attorney General's Office. I have also**
31 **appeared as a witness for CAPD in**
32 **several cases before the Tennessee**
33 **Regulatory Authority (TRA). From 1986**

1 to 1995 I was employed by the Iowa
2 Utilities Board as Chief of the Bureau
3 of Energy Efficiency, Auditing and
4 Research, and Utility Specialist and
5 State Liaison Officer to the U.S.
6 Nuclear Regulatory Commission. From
7 1984 to 1986 I worked for Houston
8 Lighting & Power as Supervisor of Rate
9 Design. From 1982 to 1984 I worked for
10 Arizona Electric Power Cooperative as
11 a Rate Analyst. From 1979 to 1982 I
12 worked for Tri-State Generation and
13 Transmission Association as Power
14 Requirements Supervisor and Rate
15 Specialist. Since 1979 my work spanned
16 many issues including cost of service
17 studies, rate design issues,
18 telecommunications issues and matters
19 related to the disposal of nuclear
20 waste.

21
22 **Q_5. What is your educational background?**

23
24 **A_5.** I have an M.S. in Regulatory Economics
25 from the University of Wyoming, an
26 M.A. and Ph.D. in International
27 Relations with a specialty in
28 International Economics from the
29 University of Denver, and a B.A. from
30 Colorado State University.

31
32 **Q_6. Dr. Brown, have you authored any**
33 **articles relating to your profession?**

1
2 A_6. Yes, my articles have appeared in
3 Public Utilities Fortnightly.
4

5 Q_7. Are you and have you been a member of
6 any professional organizations, Dr.
7 Brown?
8

9 A_7. Yes, I am a past member of the NARUC
10 Staff Committee on Management
11 Analysis, a past trustee of and a
12 member of the Board for the Automatic
13 Meter Reading Association, and a
14 current member of the National
15 Association of Business Economists.
16

17 Q_8. Have you studied mathematics and
18 statistics as part of your education?
19

20 A_8. Yes.
21

22 Q_9. Dr. Brown, do you use mathematics and
23 statistics in combination with
24 economics as part of your profession?
25

26 A_9. Yes.
27
28

**BEFORE THE TENNESSEE REGULATORY AUTHORITY
AT NASHVILLE, TENNESSEE**

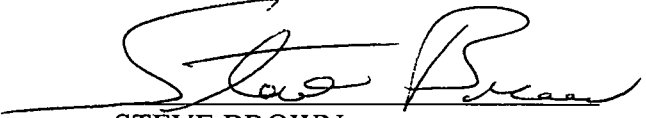
IN RE:

**REQUEST FOR AN ADJUSTMENT OF THE RATES AND CHARGES OF
ATMOS ENERGY CORPORATION**

DOCKET NO. 05-

AFFIDAVIT

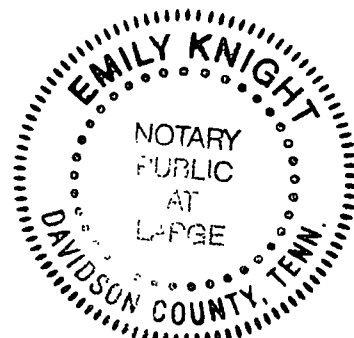
I, Steve Brown, Economist, for the Consumer Advocate Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate Division.


STEVE BROWN

Sworn to and subscribed before me
this 14th day of Sept., 2005.


NOTARY PUBLIC

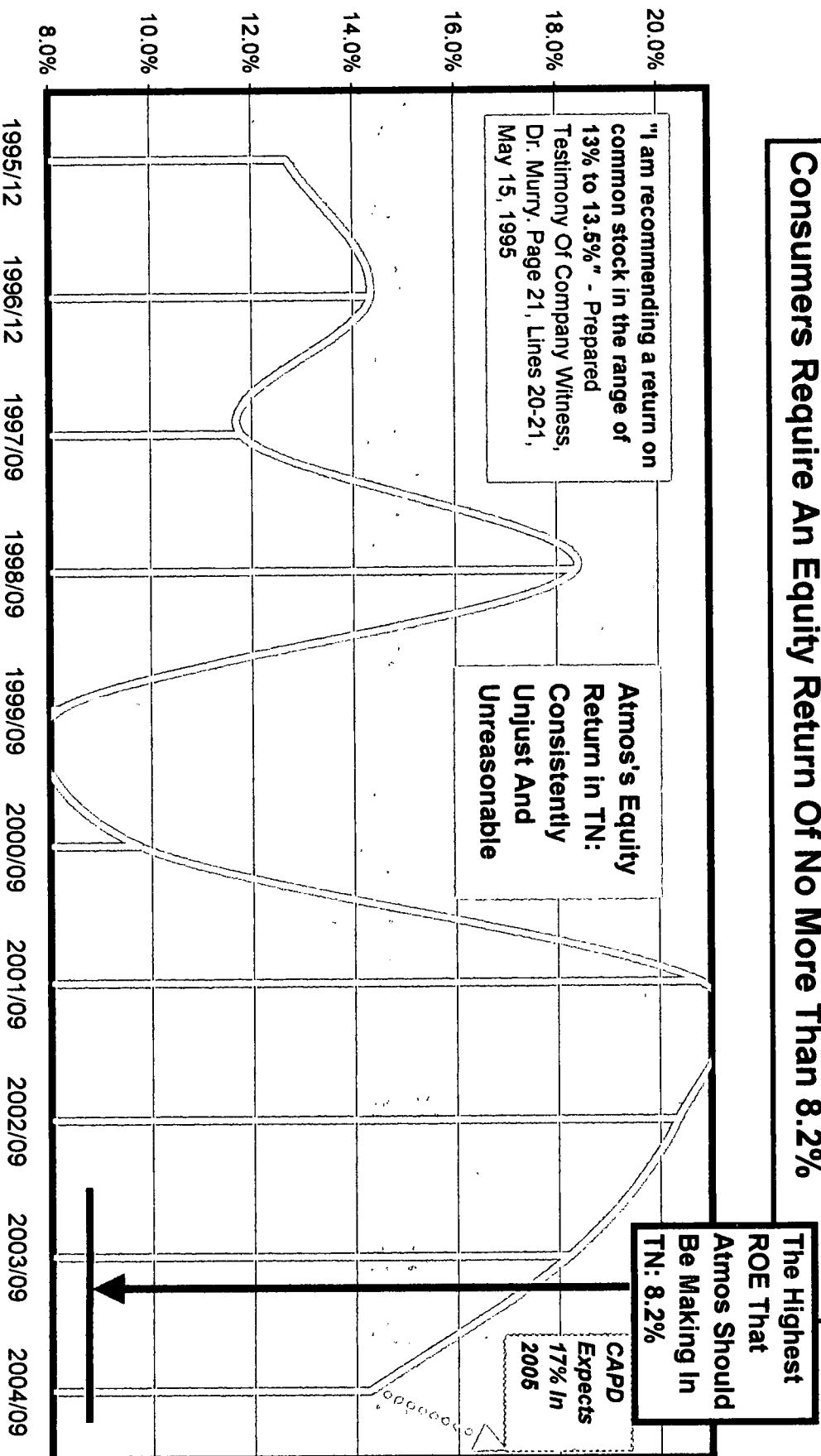
My commission expires: September 22, 2007



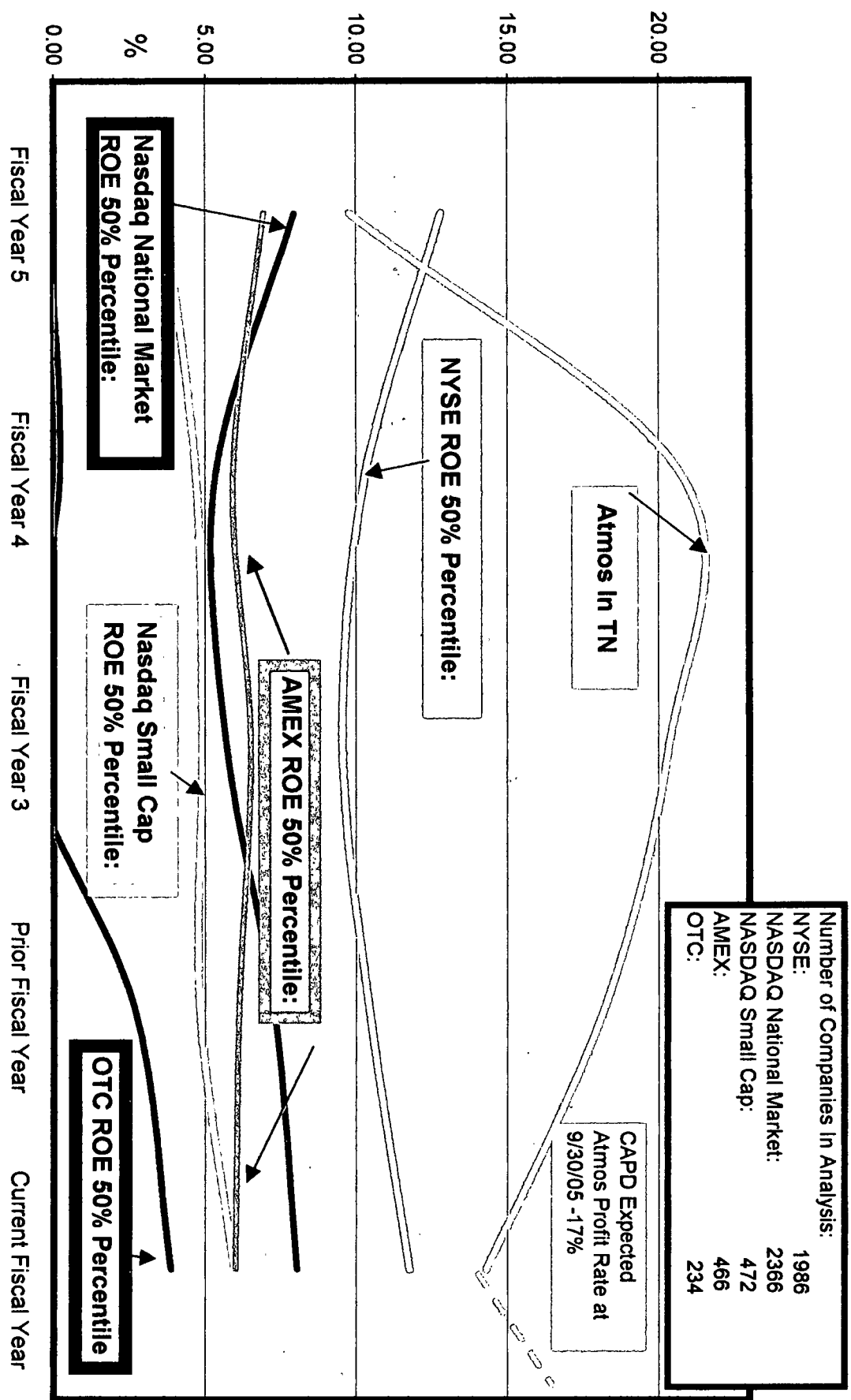
My Commission Expires SEPT 22, 2007

In Tennessee, Atmos Is Earning Enormous And 'Beyond The Market' Equity Returns

In 1995 Atmos Requested An Equity Return Of 13.25%, An Amount Atmos Has Substantially Exceeded in 6 of 10 Years From 1995 Through 2004. CAPD Estimates That Just And Reasonable Rates For Consumers Require An Equity Return Of No More Than 8.2%



Of The Nearly 5600 Companies Examined In This Chart, Atmos's Return In TN Exceeds The Norm ROE In the NYSE, NASDAQ, AMEX and OTC Markets

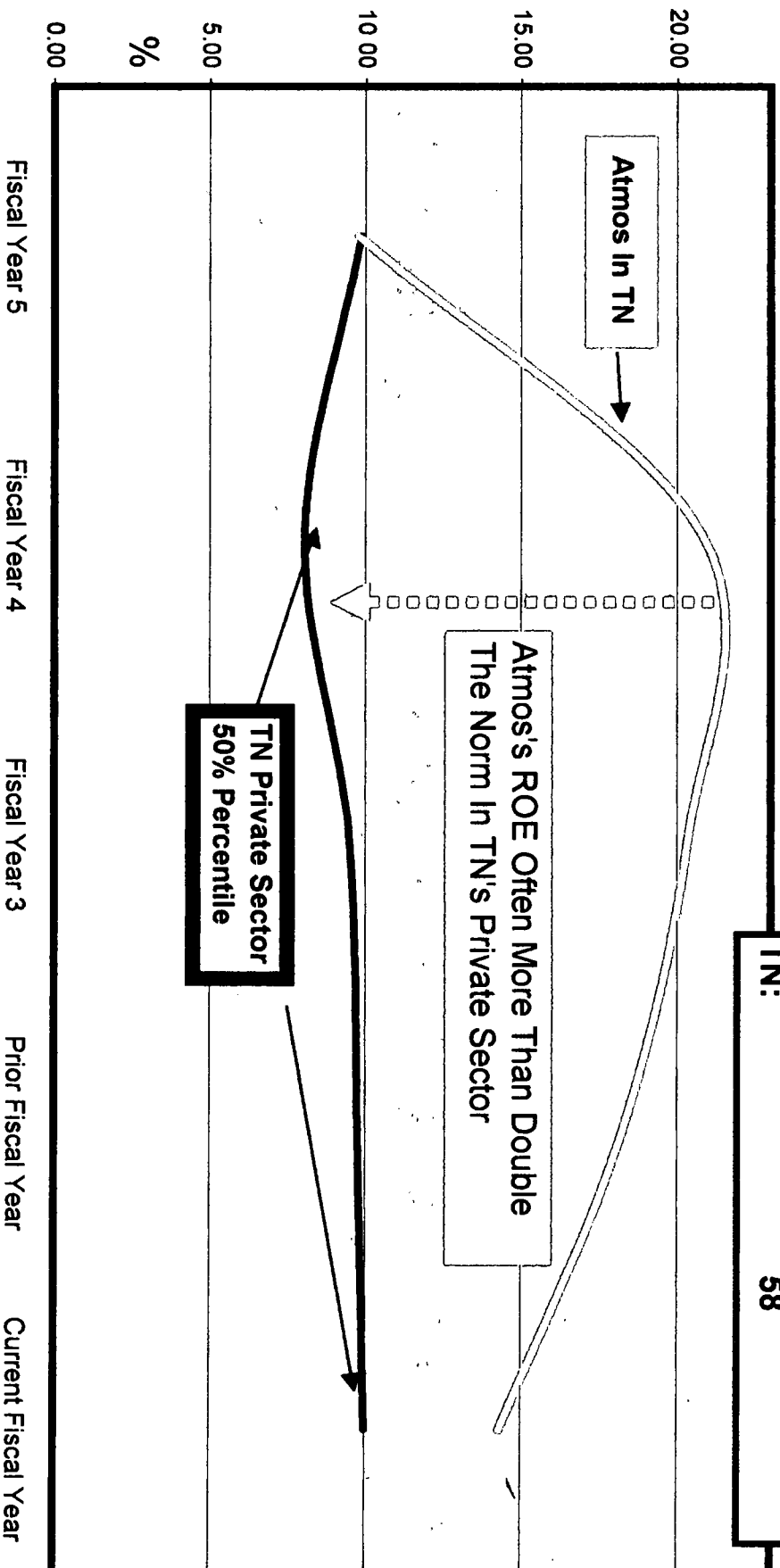


TN's Non-Regulated, Publicly-Traded Companies Have Much Lower Equity Returns Than The Regulated Monopoly. Atmos

Show Cause Petition
Exhibit CAPD-SB
Direct Testimony
Chart 3 of 6

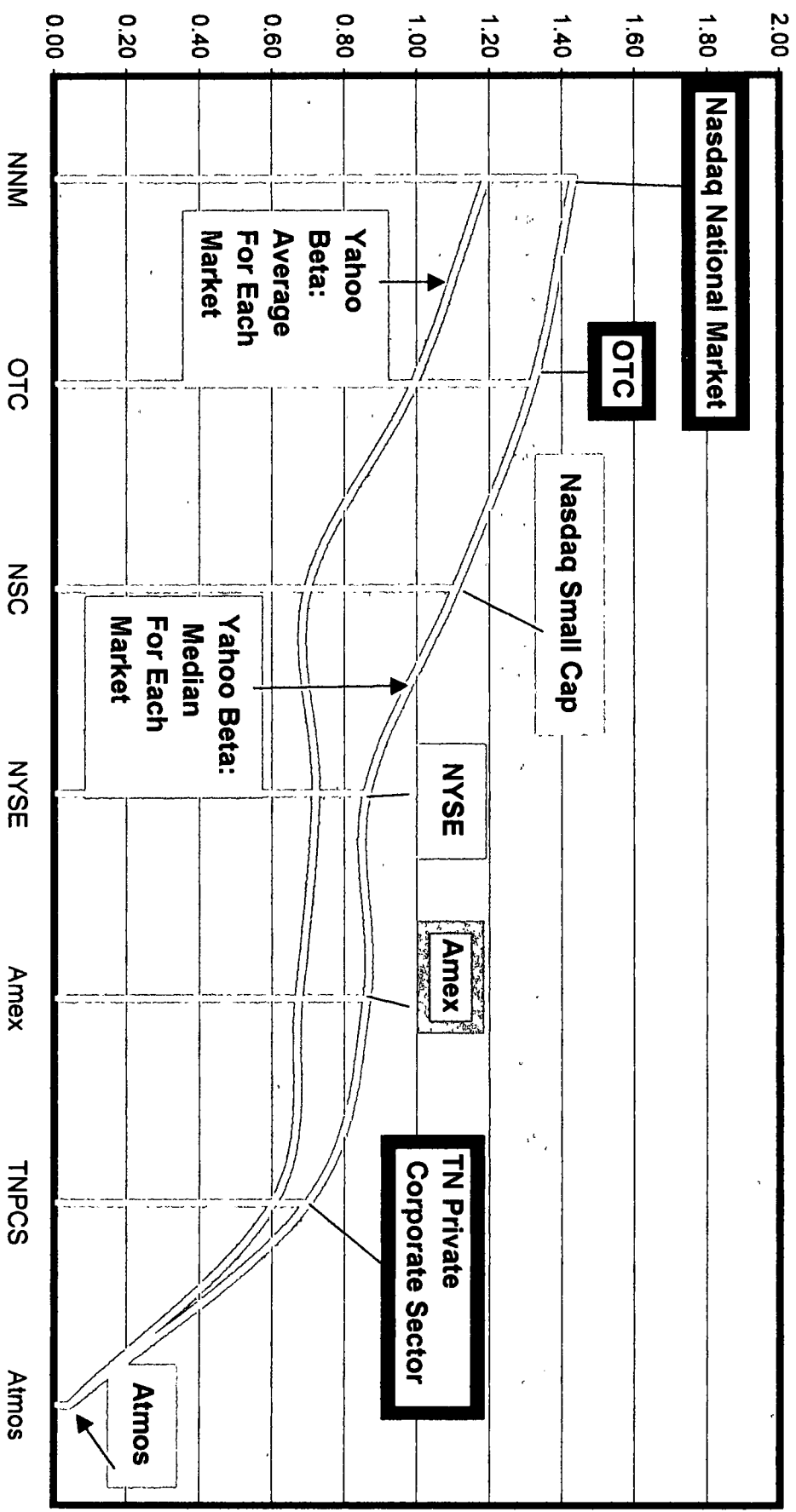
Atmos's Return In TN Compared
To The Norm In TN's Private Sector

Number of Companies In Analysis:
TN: 58



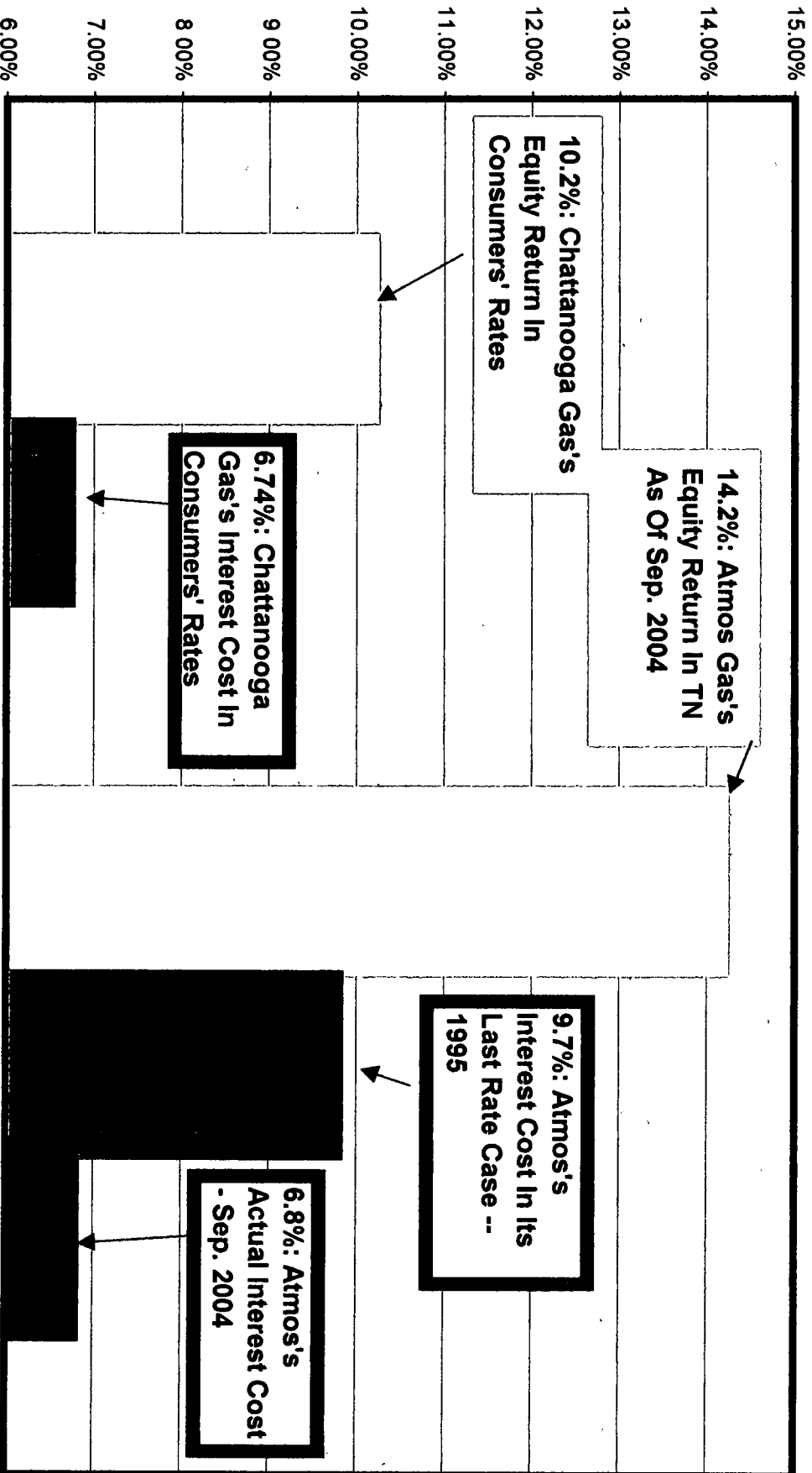
Atmos Is Not A Risky Company

Yahoo's Beta Values, A Widely Known Measure of Risk, Show That Atmos Has Little Risk In Comparison To The Risks In Tennessee's Private Sector And In The NYSE, NASDAQ, AMEX and OTC Markets.



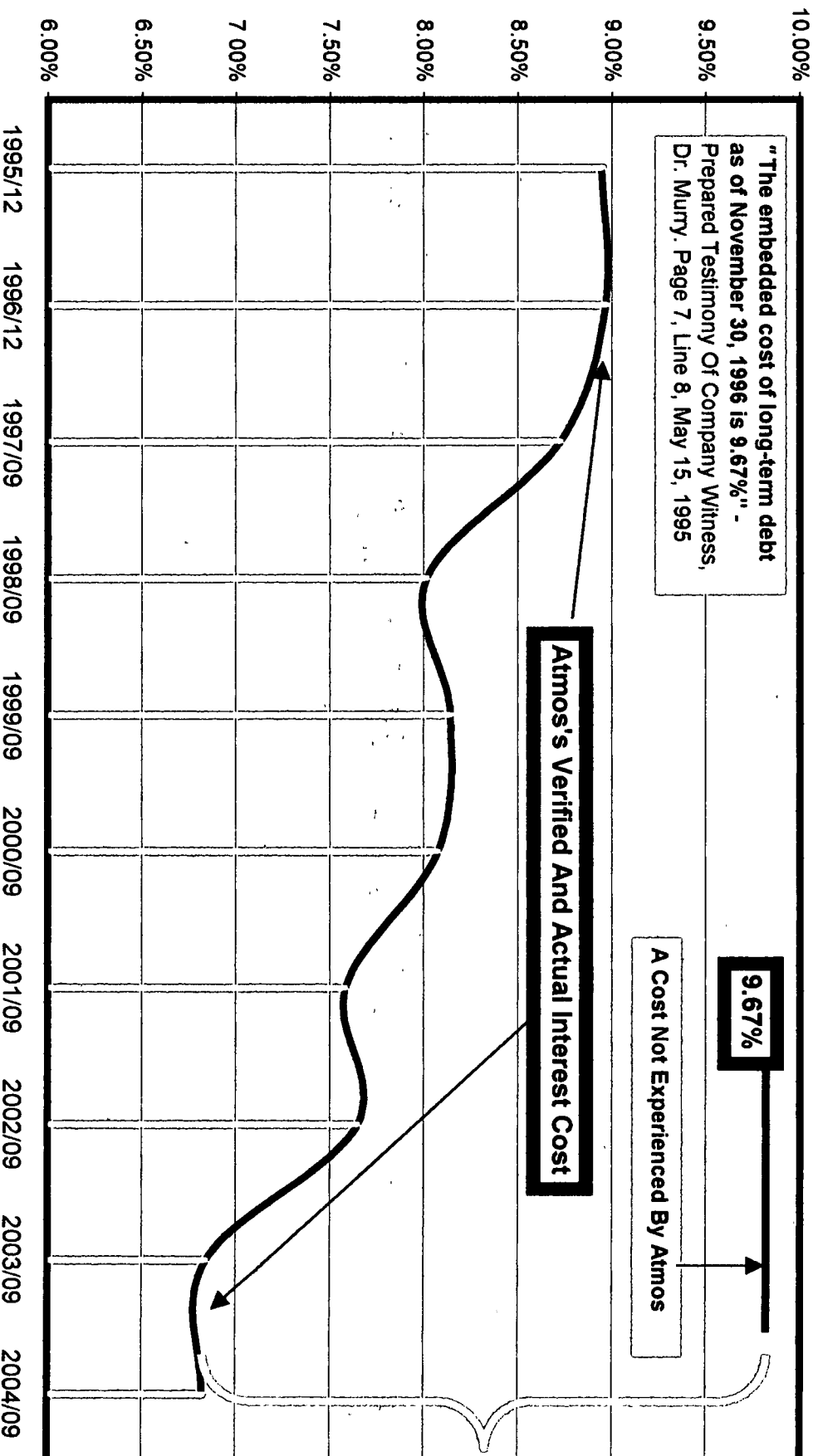
Atmos's Equity Returns Greatly Exceed Recent Returns Allowed By The TN Regulatory Authority

The Contested Rate Case Decided By The TRA In June 2005 Shows That Atmos's Equity Return Is Extreme. Atmos's RatePayers Continue To Be Denied The Benefits Of Substantial Declines In Atmos's Interest Costs



Atmos's Regulated Prices To Consumers Rely On Outdated And High Interest Costs From 1995

Atmos's Rate-Payers Never Received The Benefits Of The Federal Government Reducing Interest Costs In The American Economy



Show Cause Petition
Exhibit CAPD-SB
Direct Testimony
Schedule 1
Page 1 of 3

Sorted In Alphabetical Order By Town or City

County	Atmos Franchises City**	Median Household Income In Town or City	Per Capita Income In Town or City	Utility Gas # / %	Bottled, Tank, or LP Gas # / %	Electricity # / %	Total Households Using Gas
		\$	\$	# / %	# / %	# / %	*
Blount	Alcoa	33520	19526	2119/62.5	75/2.2	1148/33.8	2119
Bedford	Bell Buckle	27188	16235	3/1.9	68/43.0	87/55.1	3
Sullivan	Bluff City	31587	14175	95/14.4	29/4.4	488/74.1	98
Sullivan	Bristol	30039	18535	298/127.9	117/1.1	6876/64.4	2981
Maury	Columbia	35879	18004	7633/58.2	154/1.2	5153/39.3	7633
Carter	Elizabethton	25909	14578	1949/36.0	120/2.2	3166/58.4	19499
Williamson	Franklin	56431	27276	8897/55.3	118/0.7	6963/43.3	8897
Greene	Greeneville	25999	17126	987/14.6	126/1.9	5177/76.6	987
Carter	Johnson City	30835	20364	7273/30.8	332/1.4	15030/63.6	7273
Washington	Jonesborough	32132	18768	141/8.6	69/4.2	1308/79.6	141
Hawkins	Kingsport	31882	17913	25705/16.0	6699/4.2	11281/77.0.2	25705
Moore	Lynchburg	36591	19040	226/10.2	765/34.6	990/44.8	226
Blount	Maryville	40143	21556	5708/63.4	128/1.4	3042/33.8	5708
Hamblen	Morristown	27005	15894	2899/28.1	185/1.8	6934/67.2	2899
Rutherford	Murfreesboro	39705	20219	10968/41.1	200/0.7	15256/57.2	10968
Bedford	Shelbyville	31593	14260	2921/48.8	156/2.6	2821/47.1	2921
Maury	Spring Hill	60872	21688	1877/70.0	72/2.7	725/27.0	1877
Williamson	Thompson	66875	24143	104/24.9	88/21.1	208/49.9	104
Obion	Union City	29399	18787	3285/72.5	64/1.4	1160/25.6	3285
Bedford	Wartrace	29500	13459	2/0.8	71/29.8	155/65.1	2
Obion	Woodland Mills	46875	19103	104/88.1	104/88.1	12/10.2	104

* Not All Counties And Towns Are Included

** Source Of Franchise Listing United Cites SEC Form S-3 filed Dec. 20 1994

85877

***Not All Counties And Towns Are Included ** Source Of Franchise Listing United Cites SEC Form S-3 filed Dec 20 1994**

Places and Income In TN: Atmos' Huge Returns Are Funded Mainly By Households With Less Than Median Income

U.S. Census Bureau - TN Data From the 2000 Census

Fuel Use By Households:

Sorted In Ascending Order Of Per Capita Income

County	Atmos Franchises City	Median Household Income In Town or City	Per Capita Income In Town or City	Utility Gas	Bottled, Tank, or LP Gas	Electricity	Total Households Using Gas	Cumulative Households Using Gas	Percent	Cumulative Households In Percent	TN Per Capita Income Entire State
		\$	\$	# / %	# / %	# / %					\$
Bedford	Wartrace	29500	13459	2/0 8	71/29 8	155/65 1	2	2	0 0%	0 0%	
Sullivan	Bluff City	31587	14175	95/14 4	29/4 4	488/74 1	95	97	0 1%	0 1%	
Bedford	Shelbyville	31593	14260	292/148 8	156/2 6	282/147 1	2921	3018	3 4%	3 5%	
Carter	Elizabethton	25909	14578	1949/36 0	120/2 2	3166/58 4	1949	4967	2 3%	5 8%	
Hamblen	Morristown	27005	15894	2899/28 1	185/1 8	6934/67 2	2899	7866	3 4%	9 2%	
Bedford	Bell Buckle	27188	16235	3/1 9	68/43 0	87/55 1	3	7869	0 0%	9 2%	
Greene	Greeneville	25999	17126	987/14 6	126/1 9	5177/76 6	987	8856	1 1%	10 3%	
Hawkins	Kingsport	31882	17913	25705/16 0	6699/4 2	1281/170	25705	34561	29 9%	40 2%	
Maury	Columbia	35879	18004	7633/58 2	154/1 2	5153/39 3	7633	42194	8 9%	49 1%	
Sullivan	Bristol	30039	18535	2981/27 9	117/1 1	6876/64 4	2981	45175	3 5%	52 6%	
Washington	Jonesborough	32132	18768	141/8 6	69/4 2	1308/79 6	141	45316	0 2%	52 8%	
Obion	Union City	29399	18787	3285/72 5	64/1 4	1160/25 6	3285	48601	3 8%	56 6%	
Moore	Lynchburg	36591	19040	226/10 2	765/34 6	990/44 8	226	48827	0 3%	56 9%	
Obion	Woodland Mills	46875	19103	104/88 1	104/88 1	12/10 2	104	48931	0 1%	57 0%	19393
Blount	Alcoa	33520	19526	2119/62 5	75/2 2	1148/33 8	2119	51050	2 5%	59 4%	
Rutherford	Murfreesboro	39705	20219	10968/41 1	200/0 7	15256/57 2	10968	62018	12 8%	72 2%	
Carter	Johnson City	30835	20364	7273/30 8	332/1 4	15030/63 6	7273	69291	8 5%	80 7%	
Blount	Maryville	40143	21556	5708/63 4	128/1 4	3042/33 8	5708	74999	6 6%	87 3%	
Maury	Spring Hill	60872	21688	1877/70 0	72/2 7	725/27 0	1877	76876	2 2%	89 5%	
Williamson	Thompson	66875	24143	104/24 9	88/21 1	208/49 9	104	76980	0 1%	89 6%	
Williamson	Franklin	56431	27276	8897/55 3	118/0 7	6963/43 3	8897	85877	10 4%	100 0%	

Places and Income In TN: Atmos' Huge Returns Are Funded Mainly By Households With Less Than Median Income

U.S. Census Bureau - TN Data From the 2000 Census											
Fuel Use By Households:											
Sorted In Ascending Order Of Median Household Income											
County	Atmos Franchises City	Median Household Income In Town or City	Per Capita Income In Town or City	Utility Gas	Bottled, Tank, or LP Gas	Electricity	Total Households Using Gas	Cumulative Households Using Gas	Percent	Cumulative Households In Percent	TN Median Household Income Entire State
		\$	\$	# / %	# / %	# / %					\$
Carter	Elizabethton	25909	14578	1949/36 0	120/2 2	3166/58 4	1949	1949	2 3%	2 3%	
Greene	Greeneville	25999	17126	987/14 6	126/1 9	5177/76 6	987	2936	1 1%	3 4%	
Hamblen	Morristown	27005	15894	2899/28 1	185/1 8	6934/67 2	2899	5835	3 4%	6 8%	
Bedford	Bell Buckle	27188	16235	3/1 9	68/43 0	87/55 1	3	5838	0 0%	6 8%	
Obion	Union City	29399	18787	3285/72 5	64/1 4	1160/25 6	3285	9123	3 8%	10 6%	
Bedford	Wartace	29500	13459	2/0 8	71/29 8	155/65 1	2	9125	0 0%	10 6%	
Sullivan	Bristol	30039	18535	2981/27 9	117/1 1	6876/64 4	2981	12106	3 5%	14 1%	
Carter	Johnson City	30835	20364	7273/30 8	332/1 4	15030/63 6	7273	19379	8 5%	22 6%	
Sullivan	Bluff City	31587	14175	95/14 4	29/4 4	488/74 1	95	19474	0 1%	22 7%	
Bedford	Shelbyville	31593	14260	2921/48 8	156/2 6	2821/47 1	2921	22395	3 4%	26 1%	
Hawkins	Kingsport	31882	17913	25705/16 0	6699/4 2	12811/70 1	25705	48100	29 9%	56 0%	
Washington	Jonesborough	32132	18768	141/8 6	69/4 2	1308/79 6	141	48241	0 2%	56 2%	
Blount	Alcoa	33520	19526	2119/62 5	75/2 2	1148/33 8	2119	50360	2 5%	58 6%	
Maury	Columbia	35879	18004	7633/58 2	154/1 2	5153/39 3	7633	57993	8 9%	67 5%	36360
Moore	Lynchburg	36591	19040	226/10 2	765/34 6	990/44 8	226	58219	0 3%	67 8%	
Rutherford	Murfreesboro	39705	20219	10968/41 1	200/0 7	15256/57 2	10968	69187	12 8%	80 6%	
Blount	Maryville	40143	21556	5708/63 4	128/1 4	3042/33 8	5708	74895	6 6%	87 2%	
Obion	Woodland Mills	46875	19103	104/88 1	0	12/10 2	104	74999	0 1%	87 3%	
Williamson	Franklin	56431	27276	8897/55 3	118/0 7	6963/43 3	8897	83896	10 4%	97 7%	
Maury	Spring Hill	60872	21688	1877/70 0	72/2 7	725/27 0	1877	85773	2 2%	99 9%	
Williamson	Thompson	66875	24143	104/24 9	88/21 1	208/49 9	104	85877	0 1%	100 0%	

PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC
20239



FOR IMMEDIATE RELEASE
July 15, 2002

CONTACT Peter Holtenbach
202/691-3502

TREASURY CALLS 7-7/8 PERCENT BONDS OF 2002-07

The Treasury today announced the call for redemption at par on November 15, 2002, of the 7-7/8% Treasury Bonds of 2002-07, issued November 15, 1977, due November 15, 2007 (CUSIP No. 912810BZ0). There are \$1.495 million of these bonds outstanding, of which \$1,022 million are held by private investors. Securities not redeemed on November 15, 2002, will stop earning interest.

These bonds are being called to reduce the cost of debt financing. The 7-7/8% interest rate is significantly above the current cost of securing financing for the five years remaining to their maturity in current market conditions. Treasury estimates that interest savings from the call and refinancing will be about \$150 million.

Payment will be made automatically by the Treasury for bonds in book-entry form, whether held on the books of the Federal Reserve Banks or in TreasuryDirect accounts. Bonds held in coupon or registered form should be presented for redemption to financial institutions or mailed directly to the Bureau of the Public Debt, Debt Issues Section, P.O. Box 426, Parkersburg, WV 26106-0426.

PA-566

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PUBLIC DEBT NEWS

Department of the Treasury • Bureau of the Public Debt • Washington, DC
20239



FOR IMMEDIATE RELEASE
January 15, 2004

TREASURY CALLS 9-1/8 PERCENT BONDS OF 2004-09

The Treasury today announced the call for redemption at par on May 15, 2004, of the 9-1/8% Treasury Bonds of 2004-09, originally issued May 15, 1979, due May 15, 2009 (CUSIP No. 912810C71). There are \$4,606 million of these bonds outstanding, of which \$3,199 million are held by private investors. Securities not redeemed on May 15, 2004, will stop earning interest.

These bonds are being called to reduce the cost of debt financing. The 9-1/8% interest rate is significantly above the current cost of securing financing for the five years remaining to their maturity in current market conditions. Treasury estimates that interest savings from the call and refinancing will be about \$344 million.

Payment will be made automatically by the Treasury for bonds in book-entry form, whether held on the books of the Federal Reserve Banks or in TreasuryDirect accounts. Bonds held in coupon or registered form should be presented for redemption to financial institutions or mailed directly to the Bureau of the Public Debt, Debt Issues Section, P.O. Box 426, Parkersburg, WV 26106-0426. For more information concerning called coupon or registered bonds, you may contact the Debt Issues Section at (304) 480-7936.

PA-636

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Bureau of the
PublicDebt
United States Department of the Treasury

Treasury Calls 8-3/8 Percent Bonds of 2003-08 FOR IMMEDIATE RELEASE April 15, 2003

The Treasury today announced the call for redemption at par on August 15, 2003, of the 8-3/8% Treasury Bonds of 2003-08, issued August 15, 1978, due August 15, 2008 (CUSIP No. 912810CC0). There are \$2,103 million of these bonds outstanding, of which \$1,314 million are held by private investors. Securities not redeemed on August 15, 2003, will stop earning interest.

These bonds are being called to reduce the cost of debt financing. The 8-3/8% interest rate is significantly above the current cost of securing financing for the five years remaining to their maturity in current market conditions. Treasury estimates that interest savings from the call and refinancing will be about \$270 million.

Payment will be made automatically by the Treasury for bonds in book-entry form, whether held on the books of the Federal Reserve Banks or in TreasuryDirect accounts. Bonds held in coupon or registered form should be presented for redemption to financial institutions or mailed directly to the Bureau of the Public Debt, Debt Issues Section, P.O. Box 426, Parkersburg, WV 26106-0426. For more information concerning called coupon or registered bonds, you may contact the Debt Issues Section at (304) 480-7936.

Annual Economic Reports To TN's Governor
Noted That Low Interest Rates
Aided TN's Economy

Show Cause Petition
Exhibit CAPD-SB_____
Direct Testimony_____
Schedule 3_____
Page 1 of 2_____

AN ECONOMIC REPORT
TO THE
GOVERNOR
OF THE
STATE OF TENNESSEE

On the State's Economic Outlook

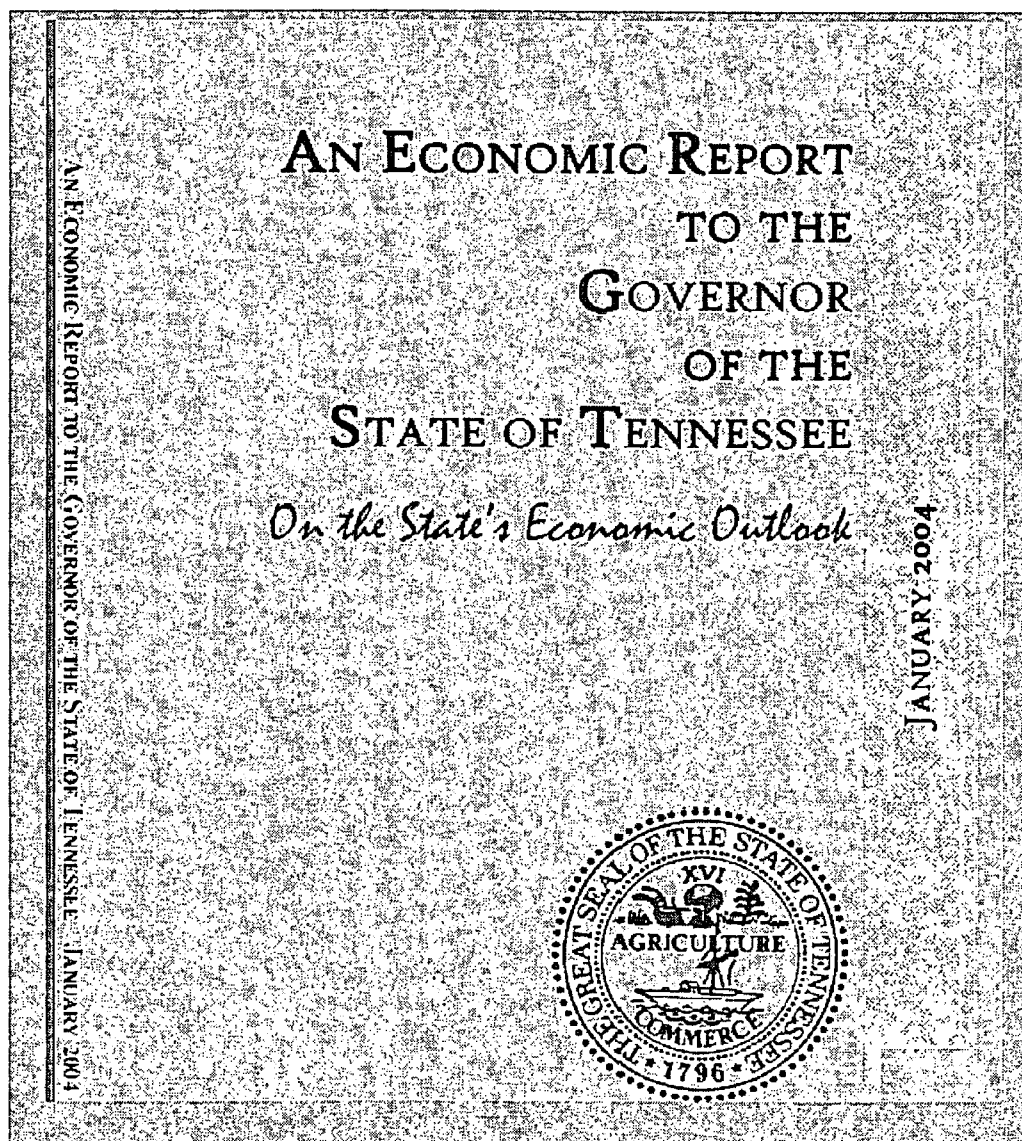
JANUARY 2002



Lower fuel and fertilizer costs and lower interest rates will benefit Tennessee net farm income in 2002 on the production cost side, although crop receipts are not likely to jump significantly as prices are expected to remain low and tobacco production will not recover significantly.

Annual Economic Reports To TN's Governor
Noted That Low Interest Rates
Aided TN's Economy

Show Cause Petition
Exhibit CAPD-SB
Direct Testimony
Schedule 3
Page 2 of 2



1.2. The Year in Review, *continued*

Surprisingly, inflation remains largely in check despite a 45-year low federal funds target rate of 1 percent (see Figure 1.5). Low interest rates make it easier and cheaper for consumers and businesses to borrow money to finance their purchases. As inflation fell rather quickly in the middle of 2003, the Fed cut interest rates in an attempt to increase overall demand and stem price reductions. This action appears to have worked.

The labor market showed continued signs of

weakness in 2003 with the unemployment rate hovering around 6 percent throughout most of the year. Wage inflation, consequently, was subdued. The employment cost index, a popular leading indicator of inflationary pressure in the economy, rose by 4.2 percent on an annual basis through 2003Q3. This growth rate was up slightly from a 2002 increase of 3.8 percent. As noted above, worker productivity (output per hour of work) was up by 9.3 percent as of 2003Q3, a significant increase over the 2002 growth rate of 5.3 percent.

7.0
6.0
5.0
4.0
Cent

**Economic
Report to the
Governor**

5

Order	Comp Name	Stock Ticker	Exchange	Business Address in TN	Current Fiscal Year - ROE Yr1	Prior Fiscal Year - ROE Yr2	ROE Yr3	ROE Yr4	ROE Yr5	Fiscal Year Ends	Beta Value/ Values of "-", and '9999' Mean The Data Source Did Not List The Value
					Mstar Data From SEC Filings - Return On Common Equity - Past 5 Fiscal Yrs					Yahoo Data	
1	Accredo Health	ACDO	Nasdaq National Market	1640 Century Center Pkwy Suite 101, Memphis Tennessee 38134	13.01	5.76	6.32	9.12	12.76	30-June	0.552
2	Alexanders J	JAX	AMEX	P.O. Box 24300, 3401 West End Avenue Nashville, TN 37203	9.72	7.38	6.95	0.71	1.27	2-Jan	0.45
3	America Service Group	ASGR	Nasdaq National Market	105 Westpark Drive Suite 200, Brentwood TN 37027	16.39	30.48	83.08	--	24.72	31-Dec	0.7
4	American Healthways	AMHC	Nasdaq National Market	3641 Green Hills Village Drive, Nashville TN 37215	16.77	16.43	11.66	5.83	0.49	31-Aug	1.096
5	Amsturg	AMSG	Nasdaq National Market	20 Burton Hills Boulevard, Nashville, TN 37215	15.62	12.94	11.1	8.03	10.9	31-Dec	0.212
6	Astec Industries	ASTE	Nasdaq National Market	1725 Shepherd Road Chattanooga, Tennessee 37421	9.96	-17.29	-2.44	1.01	13.5	31-Dec	1.528
7	AutoZone	AZO	NYSE	123 South Front Street Memphis Tennessee 38103	--	138.49	62.13	20.26	26.97	28-Aug	9999
8	Back Yard Burgers	BYBI	Nasdaq Small Cap	1657 N. Shelby Oaks Drive, Suite 105, Memphis TN 38134, 7401U	8.73	9.37	11.88	9.47	4.36	1-Jan	0.936
9	Buckeye Technologies	BKI	NYSE	1001 Clifton Street Memphis, TN 38112	-16.65	-9.51	-10.25	20.23	--	30-June	0.96
10	Calvary Bancorp	CAVB	Nasdaq National Market	114 West College Street, Murfreesboro Tennessee 37130	0.8	8.26	8.28	4.1	9.22	31-Dec	9999
11	CBL & Associates Pro	CBL	NYSE	2030 Hamilton Place Blvd, Suite 500, Chattanooga TN 37421	9.75	14.87	9.98	10.43	13.63	31-Dec	9999
12	CBRL Group	CBRL	Nasdaq National Market	305 Hartmann Drive, P.O. Box 787, Lebanon TN 37088-0787	12.87	13.4	11.72	5.81	7.12	30-July	0.299
13	Central Parking	CPC	NYSE	2401 21st Avenue South, Suite 200 Nashville TN 37212	3.91	-1.09	8.12	6.78	9.84	30-Sep	0.96
14	Chatham	CHTT	Nasdaq National Market	1715 WEST 38TH STREET, CHATTANOOGA, TENNESSEE 37409D	1.51	24.45	13.41	29.16	--	30-Nov	0.311
15	Community Health Sys	CYH	NYSE	155 Franklin Road Suite 400, Brentwood TN 37027	12.21	9.73	8.23	4.01	1.27	31-Dec	-0.316
16	Corrections Corp of Am	CXV	NYSE	10 BURTON HILLS BLVD, NASHVILLE, TENNESSEE 37215	7.49	17	-3.93	0.76	--	31-Dec	1.77
17	Covista Communication	CVST	Nasdaq National Market	721 Broad Street, Suite 200, Chattanooga TN 37402	-39.46	-5.01	-47.77	--	--	31-Jan	0.238
18	Direct General	DRCT	Nasdaq National Market	1281 Murfreesboro Road Nashville TN 37217	22.03	24.1	60.98	-0.32	-6.94	31-Dec	9999
19	Dollar General	DG	NYSE	100 Mission Ridge, Goodlettsville TN 37072	20.43	19.24	20.7	19.92	7.9	28-Jan	1.05
20	Eastman Chemical	EMN	NYSE	100 N. Eastman Road Kingsport Tennessee 37660	14.36	-25.89	4.8	-12.66	16.72	31-Dec	0.756
21	Education Realty Trust	EDR	NYSE	530 Oak Court Drive, Suite 300 Memphis TN 38117	42.37	0.4	0.4	0.04	--	31-Dec	9999
22	Equity Inns	ENN	NYSE	7700 Wolf River Boulevard, Germantown Tennessee 38138	-1.07	-8.4	-0.02	1.26	3.11	31-Dec	0.543
23	FedEx	FDX	NYSE	942 South Shady Grove Road Memphis, Tennessee 38120	10.43	11.39	10.85	9.9	14.39	31-May	0.543
24	First Acceptance	FAC	NYSE	3813 Green Hills Village Drive Nashville, 37215	-1.95	-3.21	0.82	4.34	3.82	30-June	-0.02
25	First Horizon National	FHN	NYSE	165 Madison Avenue Memphis Tennessee 38103	22.26	25.04	22.26	21.53	16.8	31-Dec	0.401
26	Gaylord Entertainment	GET	NYSE	One Gaylord Drive, Nashville, Tennessee 37214	-6.17	0.25	12.3	-6.9	-20.5	31-Dec	1.048
27	Genesco	GCO	NYSE	Goodys Park 1415 Murfreesboro Road, Nashville, TN 37217-2895	18.24	13.75	20.9	24.06	22.59	29-Jan	1.209
28	Goodys Family Clothing	GDFS	Nasdaq National Market	400 Goodys Lane Knoxville TN 37922	6.55	7.81	4.08	-11.16	6.01	29-Jan	0.995
29	Greene County Bancsh	GCBS	Nasdaq National Market	100 North Main Street, Greeneville, TN 37743-4992	11.05	10.04	13.16	13.73	8.75	31-Dec	9999
30	GTX	GTXI	Nasdaq National Market	3 N Dunlap Street, Van Wert Building, Memphis TN 38163	-8.89	--	--	--	--	31-Dec	9999

Order	Comp Name	Stock Ticker	Exchange	Business Address In TN	Current Fiscal Year - ROE Yr1	Prior Fiscal Year - ROE Yr2	ROE Yr3	ROE Yr4	ROE Yr5	Fiscal Year Ends	Beta Value
					Mstar Data From SEC Filings - Return On Common Equity - Past 5 Fiscal Yrs					Yahoo Data	
31	HCA	HCA	Nasdaq Small Cap	One Park Plaza Nashville TN 37203	28.27	21.45	14.61	20.06	6.63	31-Dec	-0.39
32	Healthcare Realty Trus	HR	NYSE	3310 West End Avenue, Suite 700 Nashville, TN 37203	7.81	7.72	7.89	7.92	8.45	31-Dec	9999
33	HealthStream	HSTM	Nasdaq National Market	209 10th Avenue South, Suite 450 Nashville TN 37203	-4.82	-15.13	-64.26	-46.02	-32.71	31-Dec	1.373
34	Payment	IPMT	Nasdaq National Market	40 Burton Hills Boulevard, Suite 415 Nashville TN 37215	16.06	12.09	-14.86	--	--	31-Dec	2.545
35	Jefferson Bancshares	JFBI	Nasdaq National Market	120 Evans Avenue, Morristown, Tennessee 37814	1.49	9.81	7.37	--	--	30-June	9999
36	King Pharmaceuticals	KG	NYSE	501 Fifth Street, Bristol TN 37620	-8.67	4.59	9.45	11.42	6.53	31-Dec	-0.81
37	Lifepoint Hospitals	LPNT	Nasdaq National Market	103 Powell Court, Suite 200 Brentwood, TN 37027	16.82	17.37	11.61	--	--	31-Dec	-0.136
38	Mid-America Apartment	MAA	NYSE	6584 POPULAR AVENUE, SUITE 300, MEMPHIS, TENNESSEE 38138	2.9	-0.33	-0.57	3.16	3.14	31-Dec	0.324
39	Miller Industries	MLR	NYSE	8500 Hilltop Drive, Ooltewah Tennessee 37363	11.7	-50.55	--	--	-64.26	31-Dec	2.135
40	Mueller Industries	MLI	NYSE	8285 Tournament Drive, Suite 150 Memphis, Tennessee 38125	22.58	5.57	10.35	9.95	--	25-Dec	0.863
41	National Health Invest	NHI	NYSE	100 Vine Street, Suite 1202, Murfreesboro Tennessee 37130	13.13	10.37	7.29	-0.51	8.43	31-Dec	0.061
42	National Health Realty	NHR	AMEX	100 Vine Street, Murfreesboro TN 37130	10.03	10.37	7.42	7.49	6.49	31-Dec	9999
43	National Healthcare	NHC	AMEX	100 Vine Street, Suite 1402, Murfreesboro TN 37130	13.15	13.21	13.68	13.74	14.7	31-Dec	0.49
44	NN	NNBR	Nasdaq Small Cap	2000 Walters Edge Drive, Johnson City Tennessee 37604	6.17	9.56	9.96	6.57	13.37	31-Dec	0.538
45	O Charleys	CHUX	Nasdaq National Market	3038 Sisco Drive, Nashville Tennessee 37204	7.05	7.06	8.85	8.45	13.37	26-Dec	9999
46	Pinnacle Financial Part	PNFP	Nasdaq National Market	The Commerce Center 211 Commerce Street, Suite 300, Nashville TN	9.19	7.44	2	-6.22	-14.3	31-Dec	9999
47	Private Business	PBSYS	Nasdaq Small Cap	9020 Overlook Boulevard, Brentwood TN 37027	7.27	--	--	--	--	31-Dec	0.362
48	Psychiatric Solutions	PSYS	Nasdaq National Market	840 Crescent Centre Drive, Suite 460 Franklin, TN 37067	6.6	4.82	18.61	27.91	27.91	31-Dec	0.35
49	Renal Care Group	RCI	NYSE	2525 West End Avenue, Suite 600 Nashville, Tennessee 37203	20.58	17.88	17	15.01	13.06	31-Dec	0.262
50	Ruby Tuesday	RI	NYSE	150 West Church Avenue, Maryville Tennessee 37801	20.54	20.94	17.15	20.71	15.86	1-June	0.278
51	ShoLodge	LODG PK	NYSE	130 Maple Drive, North, Hendersonville TN 37075	0.48	-46.16	1.02	0.64	5.28	31-Dec	9999
52	Symbol	SMBI	Nasdaq National Market	40 Burton Hills Boulevard, Suite 500, Nashville TN 37215	5.69	21.3	18.95	11.27	-13.14	31-Dec	9999
53	Tengasco	TGC	AMEX	603 Main Avenue, Knoxville Tennessee 37902	-10.87	-30.68	-49.15	-17.7	-16.56	31-Dec	0.164
54	Thomas & Betts	TNB	NYSE	8155 T&D Boulevard, Memphis TN 38215	10.34	5.85	-8.5	-21.42	-2.86	31-Dec	1.28
55	Thomas Nelson	TNM	NYSE	501 Nelson Place Nashville Tennessee 37214-1000	15.7	11.6	-63.78	-2.22	7.55	31-Mar	0.39
56	Tractor Supply	TSCO	Nasdaq National Market	200 POWELL PLACE, BRENTWOOD, TENNESSEE 37027	17.29	19.14	17.02	14.17	10.39	25-Dec	1.428
57	Unumprovident	UNM	NYSE	1 Fountain Square Chattanooga TN 37402	-3.5	-5.31	5.86	9.11	9.67	31-Dec	0.603
58	Wright Medical Group	WMGI	Nasdaq National Market	5677 Airline Road, Arlington Tennessee 38002	8.7	7.3	12.22	-1.29	--	31-Dec	0.926
MEDIAN VALUES					9.9	9.6	9.7	8.2	10.1		

SHOW Cause RETURN
 Exhibit CAPD-SB _____
 Direct Testimony _____
 Schedule 5 _____
 Page 1 of 1 _____

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Return on Equity % - Year 1

2. Condition
>=

3. Value / Benchmark
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FEDEX CORP IS AN EXAMPLE:
SEC 10-K Is Fiscal Year Data

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the fiscal year ended May 31, 2005.

OR

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-15829

FEDEX CORPORATION

(Exact Name of Registrant as Specified in its Charter)

Delaware

62-1721435

(State or Other Jurisdiction of
Incorporation or Organization)

(IRS Employer
Identification No.)

942 South Shady Grove Road, Memphis, Tennessee
(Address of Principal Executive Offices)

38120
(ZIP Code)

Registrant's telephone number, including area code (901) 818-7500

(In Thousands of \$)

1

1

 $\text{Cost} = \text{Line}$ Prepared by:

"The cost of short-term debt that is appropriate for this proceeding is 8.5%"

"The cost of short-term debt that is appropriate for this proceeding is 8.5%"
Prepared Testimony Of Company Witness Dr. Murry Page 7 Line 10, May 15 1995"

CAPD
Expected
2005 Sep 30

Atrios At Sep 30				Atrios At Sep 30				Atrios At Sep 30				Atrios At Sep 30				Atrios At Sep 30			
2004	2004	2004		2003	2003	2003		2002	2002	2002		2001	2001	2001		2000	2000	2000	
Interest Rate	Loan Balance	Bal/Total Outstand ng	Weighted Int Rate	Interest Rate	Loan Balance	Bal/Total Outstand ng	Weighted Int Rate	Interest Rate	Loan Balance	Loan Bal/Total Outstanding	Weighted Int Rate	Interest Rate	Loan Balance	Bal/Total Outstand ng	Weighted Int Rate	Interest Rate	Loan Balance	Bal/Total Outstand ng	Weighted Int Rate
7.50%	4 167	0.48%	0.0360%	11.32%	2 16	0.25%	0.0280%	11.20%	2,000	0.29%	0.0323%	11.2	4,000	0.57%	0.06%	11.2	6,000	1.63%	0.18%
6.27%	10	1.15%	0.0722%	7.50%	6 733	0.77%	0.0578%	9.76%	9,000	1.30%	0.1269%	9.76	12,000	1.71%	0.17%	9.76	15,000	4.07%	0.40%
10.00%	2,303	0.27%	0.0265%	6.27%	10	1.15%	0.0748%	11.32%	4,300	0.62%	0.0703%	9.57	10,000	1.42%	0.14%	9.57	12,000	3.26%	0.31%
7.38%	350	40.30%	2.9719%	10.00%	2,303	0.26%	0.0264%	9.57%	8,000	1.16%	0.1106%	7.95	5,000	0.71%	0.05%	7.95	6,000	1.63%	0.13%
8.80%	933	1.13%	0.0966%	7.88%	350	40.08%	2.9559%	7.93%	4,000	0.58%	0.0459%	10	2,303	0.33%	0.03%	10	2,303	0.63%	0.05%
10.43%	11 23	1.30%	0.1351%	8.80%	6 317	0.72%	0.0637%	8.07%	20,000	2.59%	0.2331%	7.375	350,000	49.82%	3.67%	7.375	0	0.00%	0.00%
9.75%	16	1.84%	0.1786%	10.43%	13 75	1.57%	0.1642%	7.50%	10,000	1.44%	0.1083%	8.07	20,000	2.85%	0.23%	8.07	20,000	5.43%	0.44%
9.40%	17	1.96%	0.1840%	9.75%	17	1.95%	0.1898%	6.27%	10,000	1.44%	0.0905%	8.26	20,000	1.42%	0.09%	8.26	20,000	2.72%	0.18%
9.32%	18	2.07%	0.1931%	9.40%	17	1.95%	0.1830%	10.00%	2,303	0.33%	0.0333%	6.67	10,000	1.42%	0.09%	6.67	10,000	2.72%	0.18%
8.77%	20	2.30%	0.2018%	9.32%	18	2.06%	0.1921%	7.38%	350,000	50.55%	3.7277%	6.27	10,000	1.42%	0.09%	6.27	10,000	2.72%	0.17%
6.67%	10	1.15%	0.0768%	8.77%	20	2.29%	0.2009%	8.80%	3,580	0.52%	0.0456%	6.2	0	0.00%	0.00%	6.2	2,000	0.54%	0.03%
6.75%	150	17.27%	1.1557%	6.67%	10	1.15%	0.0764%	8.26%	20,000	2.89%	0.2386%	6.75	150,000	21.35%	1.44%	6.75	150,000	40.75%	2.75%
5.125%	250	28.78%	1.4752%	6.75%	250	28.63%	1.4672%	9.75%	16,250	2.55%	0.2485%	9.4	17,000	2.42%	0.23%	9.4	17,000	4.62%	0.43%
				5.125%				9.40%	18,000	2.46%	0.2308%	9.75	19,000	2.70%	0.28%	9.75	20,000	5.43%	0.53%
	668 55	100.00%	6.8177%		873 26	100.00%	6.8366%	9.32%	18,000	2.60%	0.2423%	11.32	6,440	0.92%	0.10%	11.32	6,580	2.33%	0.26%
								8.77%	20,000	2.89%	0.2533%	9.32	18,000	2.85%	0.24%	9.32	18,000	4.89%	0.46%
								6.67%	10,000	1.44%	0.0963%	8.77	20,000	2.85%	0.25%	8.77	20,000	5.43%	0.48%
								6.75%	150,000	21.66%	1.4622%	7.5	10,000	1.42%	0.11%	7.5	10,000	2.72%	0.20%
								692,443	100%	7.65%	Totals	702,493	100.00%	7.69%		368,133	100.00%	8.07%	

	Ammos At Sep 30			Ammos At Sep 30			Ammos At Sep 30			Ammos At Sep 30			United Cities At Dec 31			United Cities At Dec 31		
	1999	1999	1999	1998	1998	1998	1997	1997	1997	1996	1996	1996	1995	1995	1995	1995	1995	1995
Interest Rate	Loan Balance	Bal/Total Outstanding	Weighted Int. Rate	Interest Rate	Loan Balance	Bal/Total Outstanding	Weighted Int. Rate	Interest Rate	Loan Balance	Bal/Total Outstanding	Weighted Int. Rate	Interest Rate	Loan Balance	Bal/Total Outstanding	Weighted Int. Rate	Interest Rate	Loan Balance	Bal/Total Outstanding
11.2	8,000	2.10%	0.24%	11.2	21,000	2.30%	0.25%	7.95	9,000	3.03%	0.58%	8.69	25,000	4.71%	1.76%	10.43	23,000	6.28%
9.76	18,000	4.73%	0.46%	9.76	16,000	4.63%	0.47%	9.57	18,000	6.05%	0.58%	10.43	25,000	4.71%	1.76%	10.43	23,000	6.28%
9.57	14,000	3.68%	0.35%	9.57	16,000	3.68%	0.35%	9.76	24,000	8.07%	0.79%	9.75	20,000	13.47%	1.31%	9.75	20,000	12.56%
7.95	7,000	1.84%	0.15%	7.95	8,000	1.84%	0.15%	11.2	12,000	4.04%	0.45%	11.32	15,000	10.10%	1.14%	11.32	15,000	9.42%
10	2,303	0.61%	0.06%	10	2,303	0.53%	0.05%	10	2,303	0.77%	0.08%	8.71	0	0.00%	0.00%	8.71	7,000	4.40%
8.07	20,000	5.26%	0.42%	8.07	20,000	4.60%	0.37%	6.09	40,000	13.45%	0.82%	9.32	18,000	12.12%	1.13%	9.32	18,000	11.31%
8.26	20,000	5.26%	0.43%	8.26	20,000	4.60%	0.38%	8.07	20,000	6.73%	0.54%	8.77	20,000	13.47%	1.18%	8.77	20,000	12.56%
6.67	10,000	2.63%	0.18%	6.67	10,000	2.30%	0.15%	8.26	20,000	6.73%	0.56%	7.5	10,000	6.73%	0.51%	7.5	10,000	6.28%
6.27	10,000	2.63%	0.16%	6.27	10,000	2.30%	0.14%	6.75	20,000	0.00%	0.00%	6.43	22,000	14.81%	0.95%	6.43	22,000	13.82%
6.2	2,000	0.53%	0.03%	6.2	2,000	0.46%	0.03%	9.4	17,000	5.72%	0.54%	7.45	9,353	6.30%	0.47%	7.45	9,926	6.23%
6.75	150,000	39.42%	2.66%	6.09	40,000	9.19%	0.56%	8.69	5,000	1.68%	0.15%	7.45	2,161	1.46%	0.11%	7.45	2,292	1.44%
9.4	17,000	4.47%	0.42%	9.4	17,000	3.91%	0.37%	10.43	25,000	8.41%	0.86%							
8.69	1,000	0.26%	0.02%	8.69	3,000	0.69%	0.08%	9.75	20,000	6.73%	0.66%							
10.43	22,500	5.91%	0.62%	10.43	25,000	5.74%	0.60%	11.32	15,000	5.05%	0.57%							
9.75	20,000	5.26%	0.51%	9.75	20,000	4.60%	0.45%	9.32	18,000	6.05%	0.56%							
11.32	10,720	2.82%	0.32%	11.32	20,000	4.60%	0.45%	8.77	20,000	6.73%	0.59%							
9.32	18,000	4.73%	0.44%	9.32	12,860	2.86%	0.33%	7.5	10,000	3.36%	0.23%							
8.77	20,000	5.26%	0.46%	8.77	18,000	4.14%	0.39%	6.67	10,000	3.36%	0.22%							
7.5	10,000	2.63%	0.20%	7.5	20,000	4.60%	0.40%	6.27	10,000	3.36%	0.21%							
	380,523	100.00%	8.14%		435,163	100.00%	8.01%		297,303	100.00%	8.73%							

Comparable Companies' Capital Structure:

(In Millions of \$)	AGL Resources: Consolidated Capitalization				
	2004 Dec 31	2003: Dec 31	2002 Dec 31	3_Yr Av Cap Structure	
Capital Structure Components As Of					
Short-Term Debt Notes Due	334	306	389	343	
Short-Term Debt Current Portion of Long-Term Debt	0	77	30	36	
Long-Term Debt	1,623	731	767	1,040	
Common Equity	1,385	945	710	1,013	
Trust Preferred Securities	0	225	227	151	
Total	3,342	2,285	2,123	2,583	
RATIOS					
Short-Term Debt Notes Due	10 0%	13 4%	18 3%	13 3%	
Short-Term Debt Current Portion of Long-Term Debt	0 0%	3 4%	1 4%	1 4%	
Long-Term Debt	48 6%	32 0%	36 1%	40 3%	
Common Equity	41 4%	41 4%	33 4%	39 2%	
Trust Preferred Securities	0 0%	9 9%	10 7%	5 8%	
Total	100 0%	100 0%	100 0%	100 0%	

Comparable Companies' Capital Structure:

Peoples Energy Corporation : Consolidated Capitalization					
(In Thousands of \$)		2004 Sep 30	2003 Sep 30	2002 Sep 30	3_Yr Av Cap Structure
Capital Structure Components As Of					
Short-Term Debt	Notes Due	55,625	207,949	287,871	183,815
Short-Term Debt	Current Portion of Long-Term Debt	0	0	90,000	30,000
Long-Term Debt		897,377	744,345	554,014	731,912
Common Equity		870,083	847,999	806,324	841,469
Preferred			0	0	0
Total		1,823,085	1,800,293	1,738,209	1,787,196
RATIOS					
Short-Term Debt	Notes Due	3 1%	11 6%	16 6%	10 3%
Short-Term Debt	Current Portion of Long-Term Debt	0 0%	0 0%	5 2%	1 7%
Long-Term Debt		49 2%	41 3%	31 9%	41 0%
Common Equity		47 7%	47 1%	46 4%	47 1%
Preferred		0 0%	0 0%	0 0%	0 0%
Total		100 0%	100 0%	100 0%	100 0%

Comparable Companies' Capital Structure:

		NICOR : Consolidated Capitalization			
(In Millions of \$)					
Capital Structure Components As Of		2004 Dec 31	2003 Dec 31	2002 Dec 31	3_Yr Av Cap Structure
Short-Term Debt	Notes Due	490	575	315	460
Short-Term Debt	Current Portion of Long-Term Debt	0	0	100	33
Long-Term Debt		495	497	396	463
Common Equity		749	755	728	744
Preferred		2	2	4	3
Total		1,736	1,828	1,544	1,703
RATIOS					
Short-Term Debt	Notes Due	28 2%	31 4%	20 4%	27 0%
Short-Term Debt	Current Portion of Long-Term Debt	0 0%	0 0%	6 5%	2 0%
Long-Term Debt		28 5%	27 2%	25 7%	27 2%
Common Equity		43 2%	41 3%	47 2%	43 7%
Preferred		0 1%	0 1%	0 3%	0 2%
Total		100 0%	100 0%	100 0%	100 0%

		New Jersey Resources : Consolidated Capitalization			
(In Millions of \$)	1000				
Capital Structure Components As Of	2004 Sep 30	2003 Sep 30	2002 Sep 30	3_Yr Av Cap Structure	
Short-Term Debt Notes Due	260	185	60		168
Short-Term Debt Current Portion of Long-Term Debt	3	3	27		11
Long-Term Debt	316	258	371		315
Common Equity	468	419	361		416
Preferred	0	0	0		0
Total	1,046	865	819		910
RATIOS					
Short-Term Debt Notes Due	24 8%	21 4%	7 3%		18 5%
Short-Term Debt Current Portion of Long-Term Debt	0 3%	0 3%	3 3%		1 2%
Long-Term Debt	30 2%	29 8%	45 2%		34 6%
Common Equity	44 7%	48 5%	44 1%		45 7%
Preferred	0 0%	0 0%	0 0%		0 0%
Total	100 0%	100 0%	100 0%		100 0%

Comparable Companies' Capital Structure:

Northwest Natural Gas : Consolidated Capitalization				
(In Thousands of \$)				
Capital Structure Components As Of	2004 Dec 31	2003 Dec 31	2002 Dec 31	3_Yr Av Cap Structure
Short-Term Debt Notes Due	102,500	85,200	69,802	85,834
Short-Term Debt Current Portion of Long-Term Debt	15,000	0	20,000	11,667
Long-Term Debt	484,027	500,319	445,945	476,764
Common Equity	568,517	506,316	483,103	519,312
Preferred	0	0	8,250	2,750
Total	1,170,044	1,091,835	1,027,100	1,096,326
RATIOS				
Short-Term Debt Notes Due	8.8%	7.8%	6.8%	7.8%
Short-Term Debt Current Portion of Long-Term Debt	1.3%	0.0%	1.9%	1.1%
Long-Term Debt	41.4%	45.8%	43.4%	43.5%
Common Equity	48.6%	46.4%	47.0%	47.4%
Preferred	0.0%	0.0%	0.8%	0.3%
Total	100.0%	100.0%	100.0%	100.0%

Comparable Companies Capital Structure:

WGL Holdings : Consolidated Capitalization					
(In Thousands of \$)					
Capital Structure Components As Of	2004 Sep 30	2003 Sep 30	2002 Sep 30	3_Yr Av Cap Structure	
Short-Term Debt Notes Due	95,634	166,662	90,865	117,720	
Short-Term Debt Current Portion of Long-Term Debt	60,639	12,180	42,238	38,352	
Long-Term Debt	590,164	636,650	667,951	631,588	
Common Equity	853,424	818,218	766,403	812,682	
Preferred	28,173	28,173	28,173	28,173	
Total	1,628,034	1,661,883	1,595,630	1,628,516	
RATIOS					
Short-Term Debt Notes Due	5.9%	10.0%	5.7%	7.2%	
Short-Term Debt Current Portion of Long-Term Debt	3.7%	0.7%	2.6%	2.4%	
Long-Term Debt	36.3%	38.3%	41.9%	38.8%	
Common Equity	52.4%	49.2%	48.0%	49.9%	
Preferred	1.7%	1.7%	1.8%	1.7%	
Total	100.0%	100.0%	100.0%	100.0%	

**KeySpan Corp : Consolidated
Capitalization**

(In Thousands of \$)	2004 Dec 31	2003 Dec 31	2002 Dec 31	3_Yr Av Cap Structure
Capital Structure Components As Of				
Short-Term Debt Notes Due	912,246	481,900	915,697	769,948
Short-Term Debt Current Portion of Long-Term Debt	16,103	1,471	11,413	9,662
Long-Term Debt	4,418,729	5,611,432	5,224,081	5,084,747
Common Equity	3,894,710	3,670,656	2,944,592	3,503,319
Preferred	75,000	83,568	83,849	80,806
Total	9,316,788	9,849,027	9,179,632	9,448,482
RATIOS				
Short-Term Debt Notes Due	9 8%	4 9%	10 0%	8 1%
Short-Term Debt Current Portion of Long-Term Debt	0 2%	0 0%	0 1%	0 1%
Long-Term Debt	47 4%	57 0%	56 9%	53 8%
Common Equity	41 8%	37 3%	32 1%	37 1%
Preferred	0 8%	0 8%	0 9%	0 9%
Total	100 0%	100 0%	100 0%	100 0%

Comparable Companies' Capital Structure:

		Piedmont: Consolidated Capitalization			
(In Thousands of \$)					
Capital Structure Components As Of		2004 Oct 31	2003 Oct 31	2002 Oct 31	3_Yr Av Cap Structure
Short-Term Debt	Notes Due	109,500	555,059	46,500	237,020
Short-Term Debt	Current Portion of Long-Term Debt	0	2,000	47,000	16,333
Long-Term Debt		660,000	460,000	462,000	527,333
Common Equity		854,898	630,195	589,596	691,563
Preferred		0	0	0	0
Total		1,624,398	1,647,254	1,145,096	1,472,249
RATIOS					
Short-Term Debt	Notes Due	6.7%	33.7%	4.1%	16.1%
Short-Term Debt	Current Portion of Long-Term Debt	0.0%	0.1%	4.1%	1.1%
Long-Term Debt		40.6%	27.9%	40.3%	35.8%
Common Equity		52.6%	38.3%	51.5%	47.0%
Preferred		0.0%	0.0%	0.0%	0.0%
Total		100.0%	100.0%	100.0%	100.0%

**Laclede Group: Consolidated
Capitalization**

(In Thousands of \$)	2004 Sep 30	2003 Sep 30	2002 Sep 30	3 Yr Av Cap Structure
Capital Structure Components As Of				
Short-Term Debt Notes Due	71,380	218,200	161,670	150,417
Short-Term Debt Current Portion of Long-Term Debt	25,145	0	24,832	16,659
Long-Term Debt	380,336	306,025	259,545	315,302
Common Equity	355,915	299,072	285,766	313,584
Preferred	1,108	1,258	1,266	1,211
Total	833,884	824,555	733,079	797,173
RATIOS				
Short-Term Debt Notes Due	8.6%	26.5%	22.1%	18.9%
Short-Term Debt Current Portion of Long-Term Debt	3.0%	0.0%	3.4%	2.1%
Long-Term Debt	45.6%	37.1%	35.4%	39.6%
Common Equity	42.7%	36.3%	39.0%	39.3%
Preferred	0.1%	0.2%	0.2%	0.2%
Total	100.0%	100.0%	100.0%	100.0%

		Southwest Gas: Consolidated Capitalization			
(In Thousands of \$)					
Capital Structure Components As Of		2004 Dec 31	2003 Dec 31	2002 Dec 31	3_Yr Av Cap Structure
Short-Term Debt	Notes Due	10,000	52,000	53,000	38,333
Short-Term Debt	Current Portion of Long-Term Debt	29,821	6,435	8,705	14,987
Long-Term Debt		1,262,936	1,221,164	1,152,148	1,212,083
Common Equity		705,676	630,467	596,167	644,103
Preferred			0	0	0
Total		2,008,433	1,910,066	1,810,020	1,909,506
RATIOS					
Short-Term Debt	Notes Due	0 5%	2 7%	2 9%	2 0%
Short-Term Debt	Current Portion of Long-Term Debt	1 5%	0 3%	0 5%	0 8%
Long-Term Debt		62 9%	63 9%	63 7%	63 5%
Common Equity		35 1%	33 0%	32 9%	33 7%
Preferred		0 0%	0 0%	0 0%	0 0%
Total		100 0%	100 0%	100 0%	100 0%

Capital Structure Summary And Weighted Cost

Comparable Companies Group - Atmos Excluded: Consolidated Capitalization						
(In Thousands of \$)						Weighted Cost
RATIOS -Capital Structure Components As Of:	FY 2004	FY 2003	FY 2002	3 Yr Average	Cost	
Short-Term Debt: Notes Due	10.6%	16.3%	11.4%	12.8%	2.7%	0.3%
Short-Term Debt: Current Portion of Long-Term Debt	1.0%	0.5%	2.9%	1.5%	6.8%	0.1%
Long-Term Debt	43.1%	40.0%	42.1%	41.7%	6.8%	2.8%
Common Equity	45.0%	41.9%	42.2%	43.0%	8.2%	3.5%
Preferred	0.3%	1.3%	1.5%	1.0%	6.8%	0.1%
Total	100.0%	100.0%	100.0%	100.0%		6.9%

**Dividend Growth Results:
Dividend Yield And Dividend Growth
Provide An Equity Return Estimate of 8.2%.**

Suggested ROE For Atmos In TN Based On Comparable Companies							
From Most Recent Contested Case							
	Div Yield Per Mstar	Ticker	Div Growth Per Mstar	ROE Div Growth Model With Mstar Growth		Div Growth Per Yahoo	ROE Div Growth Model With Yahoo Growth
Comparable Companies							
AGL Resources	2.47	ATG	4.5	6.97		4.8	7.27
NICOR	4.68	GAS	2.3	6.98		2	6.68
KeySpan	4.79	KSE	3.9	8.69		4	8.79
Laclede Group	4.3	LG	4.5	8.8		5	9.3
New Jersey Resources	2.92	NJR	5.2	8.12		5.5	8.42
Northwest Natural	3.52	NWN	5.1	8.62		5	8.52
Peoples Gas	5.31	PGL	4.6	9.91		4	9.31
Piedmont	3.75	PNY	5.2	8.95		5.1	8.85
Southwest gas	3.09	SWX	4	7.09		4	7.09
WGL Holdings	4.02	WGL	3.7	7.72		4	8.02
	3.885		4.3	8.185		4.34	8.225

EXHIBIT B

Before the

TENNESSEE REGULATORY AUTHORITY

**IN RE: REQUEST FOR AN ADJUSTMENT OF THE RATES AND CHARGES
OF ATMOS ENERGY CORPORATION**

DOCKET NO. 05-__

**DIRECT TESTIMONY
OF
DANIEL W. McCORMAC, CPA**

September 14, 2005

BEFORE THE TENNESSEE REGULATORY AUTHORITY

AT NASHVILLE, TENNESSEE

**IN RE: REQUEST FOR AN ADJUSTMENT OF THE RATES AND CHARGES
OF ATMOS ENERGY CORPORATION**

DOCKET NO. 05-_____

AFFIDAVIT

I, Daniel W. McCormac, Coordinator of Analysts for the Consumer Advocate and Protection Division of the Attorney General's Office, hereby certify that the attached Direct Testimony represents my opinion in the above-referenced case and the opinion of the Consumer Advocate and Protection Division.



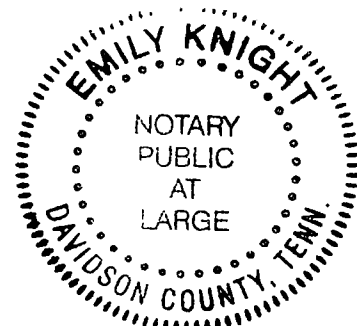
DANIEL W. McCORMAC

Sworn to and subscribed before me
this 14th day of Sept., 2005.



NOTARY PUBLIC

My commission expires: September 22, 2007



My Commission Expires SEPT 22, 2007

1 **Q. Would you state your name for the record?**

2 A. My name is Daniel W. McCormac.

3

4 **Q. By whom are you employed and what is your position?**

5 A. I am employed by the Attorney General's Office as Coordinator of Analysts
6 for the Consumer Advocate and Protection Division.

7

8 **Q. What are your qualifications as a witness?**

9 A. Please see Appendix A for my education, licenses, and work experience.

10

11 **Q. Please summarize the CAPD's major findings.**

12 A. Atmos Energy Corporation's ("Atmos") earnings have never been formerly
13 examined in Tennessee. The CAPD examined Atmos's reported earnings
14 as well as the reported earnings of over 5,500 other publicly owned
15 corporations and found that **Atmos's earnings are clearly and**
16 **consistently excessive.**

17

18 **Atmos's revenues currently exceed the levels required to cover all**
19 **costs and produce a reasonable profit or return on investments.**

20 Atmos's excessive earnings are confirmed by the financial statements which
21 Atmos files with the TRA which show that Atmos is earning a 11.02% return
22 on rate base.¹ Dr. Brown's analysis shows that Atmos's maximum **cost of**
23 **equity is 8.2%. Based on this cost of equity and comparable**
24 **companies' capital structures, Atmos should earn no more than 6.89%.**
25 **Therefore, Atmos is overcharging consumers \$10.2 Million per year.**
26 Even if the TRA finds that the cost of equity (allowable stockholder profit
27 rate) should be as high as 10 2%, Atmos is overcharging consumers \$8.1

¹See TRA-3.03 Monthly earnings report for the latest audited fiscal year ended September 30, 2004 dated December 7, 2004

1 Million per year above that level.

2

3 Atmos reported revenues of \$169.4 million for the year ended September 30,
4 2004. Since Atmos overcharged \$10.2 million, consumers were overcharged
5 by about 6.0%. A primary purpose of the companies filing monthly
6 Tennessee financial statements (TRA form 3.03) is so that earnings can be
7 monitored by the TRA and the public which the TRA and Atmos serves. The
8 3.03 reports filed by Atmos at the TRA show earnings far above the zone of
9 reasonableness. If Atmos's earnings were 0% instead of 11.02%, there is
10 no doubt that it would be seeking a change in rates to provide a "fair and
11 reasonable rate of return" for its stockholders.

12

13 **Q. Please give a more detailed description of your findings.**

14 A. I compared Atmos's reported earnings with the current capital costs as
15 presented by CAPD witness Dr. Stephen Brown. This comparison clearly
16 shows that Atmos is overcharging Tennessee's consumers at least \$27,000
17 per day or \$10.2 Million per year as shown on Exhibit CAPD-DM, Schedule
18 1. Even if Atmos is allowed a profit level as high as 10.2% return on equity,
19 Atmos is overcharging Tennessee's consumers at least \$22,000 per day or
20 \$8.1 Million per year as shown on Exhibit CAPD-DM, Schedule 3.

21

22 Dr. Stephen Brown will testify on the appropriate capital structure, cost of
23 common equity and return on rate base as summarized on Exhibit CAPD-
24 DM, Schedule 2 and supported in detail in Dr. Brown's testimony and
25 exhibits.

26

27 **Q. Why should the TRA adjust rates now?**

28 A. Since Atmos acquired United Cities Gas in 1997, it has consistently
29 requested and received "single issue" rate increases through trackers or

1 surcharges. Atmos requested these higher rates to cover the “single issues”
2 of higher gas costs, higher uncollectible expenses, bonuses for “savings” on
3 gas purchases, and recovery of lost margins to offset rate reductions to large
4 customers.² However, Atmos has never had a comprehensive review of its
5 costs and revenues in Tennessee and has never requested or received a
6 rate reduction to reflect the “single issues” of lower interest rates, lower
7 employment levels, lower service levels, or higher sales levels³. None of
8 these “single issues” have been considered in reducing Atmos’s rates since

²In 2001, Atmos sought and received a “temporary” “single issue” rate increase to offset higher uncollectible expenses caused by the unusually high cost of gas in January 2001 (Docket 01-00802). In 2001, Atmos tried to add a “single issue” surcharge for “savings” on gas purchase costs. (Dockets 01-00704 and 02-00850. These dockets are still pending.) On February 9, 2005, Atmos received a “single issue” permanent rate tracker to guarantee recovery of all uncollectible accounts associated with higher gas costs (Docket 03-00209). On August 22, 2005 Atmos received confirmation of previous approval to increase rates on all but one customer to offset the “single issue” reduction in rates for one large customer (Docket 03-00540). In July, 2005, Atmos agreed to pay a small fine for degradation in meter reading service (Docket 05-00150). Since 1995, Atmos has filed numerous “single issue” PGA rate increases to pass through the higher costs of gas. On November 15, 1995 residential rates were \$.50 to \$.56 per CCF. On August 31, 2005, Atmos requested PGA rate increases which would raise residential rates to \$1.74 to \$1.75 per CCF as of October 1, 2005. If this is approved, residential rates will be more than three times as high as they were in 1995 when they were set by the Public Service Commission.

³Before the effective date of the rates approved in the last rate case with United Cities gas (Docket No. 95-02258, November 15, 1995), United Cities contracted with a major customer (UCAR) to increase sales revenues by over \$292,000 per year. This contract was not disclosed during the rate case investigation. The increased revenues have been kept by Atmos (and United Cities Gas), but not returned to other consumers. This is another example of why Atmos’s earnings are excessively high in Tennessee. United Cities effectively argued that “This Commission has traditionally refused to entertain ‘one issue’ rate cases, for the obvious reason that rates are set for the future, and one issue may very well be offset by others.” United Cities also stated: “While the Commission has continuing regulatory supervision over the Company and could institute a new earnings review if it so chose, there is no legal basis to re-open Docket No. 95-02258.” [Response in opposition to the motion of the Consumer Advocate, pp. 2, 3.] However, “single issues” that increase Atmos’s costs or reduce its revenues are routinely billed to other consumers. (Dockets 93-05553, 95-02258)

1 it purchased United Cities Gas in 1997.

2
3 While Atmos has sought "single issue" rate increases from consumers for
4 certain expenses that have gone up, it has failed to give consumers the
5 savings from expenses that have gone down. Another example of the way
6 Atmos raises rates for some "single issues" while it ignores others is the fact
7 that Atmos is still keeping the gains associated with abnormal and
8 unanticipated sales increases that occurred within weeks of the last rate
9 case while the lost revenues from a recent rate reduction for Goodyear were
10 added to the bills of all other consumers. It is time to examine the broader
11 question of whether rates are "just and reasonable" after looking at all
12 issues. Atmos keeps raising rates on "single issues", effectively passing the
13 risk of higher expenses on to consumers, while Atmos keeps all the savings
14 from reductions in the cost of debt, equity and reduced employees. If Atmos
15 wants no risk, it should also be willing to accept a lower rate of return on its
16 investments in Tennessee than what other companies would expect to
17 receive.

18
19 **Q. Why was the PGA rule adopted?**

20 A. The Purchased Gas Adjustment mechanism was designed to be a tool to
21 avoid frequent rate cases every time the wholesale cost of gas changed
22 significantly. It was not designed to completely eliminate rate cases. It is
23 well understood in the industry that other factors besides wholesale gas
24 drive the cost of the natural gas distribution business and that these costs
25 should also be considered in setting "just and reasonable" rates. As Dr.
26 Brown points out in his testimony, Atmos's 2000 financial reports (FORM
27 10-K filed with the SEC) state: "The Company's utility divisions perform
28 annual deficiency studies for each rate jurisdiction to determine when to file
29 rate cases, which are typically filed every two to five years."

1
2 After the recent major increases in the cost of natural gas, Atmos and other
3 gas distributors are filing PGAs ("single issue" rate increases) that will
4 increase consumers' rates to unprecedented levels. The TRA has the
5 opportunity to examine all costs (including the cost of gas) to make sure that
6 these rates are not unreasonably exceeding the costs, including a
7 reasonable return on capital. Consumers need help now.
8

9 **Q. Can Atmos raise its earnings in future years?**

10 A. Of course. Atmos's recent acquisition of TXU provides new opportunities to
11 reduce expenses through consolidation of the new combined operations.
12 Atmos's cost of capital has been substantially reduced through borrowings
13 of lower cost debt late last year. Other savings such as employee reductions
14 take longer to realize, but are very likely to significantly reduce costs in the
15 future.
16

17 **Q. What were the conclusions from the Consumer Advocate's analysis?**

18 A. The TRA should immediately reduce rates by \$10.2 million to reflect current
19 costs. The partial and preliminary results of the Consumer Advocate's
20 analysis are presented in Exhibit CAPD-DM and Exhibit CAPD-SB. The cost
21 of service is summarized on Schedule 1 of Exhibit CAPD-DM. Rates should
22 be calculated on a Rate Base of \$150,906,000, an Operating Income at
23 Present Rates of \$16,636,000 and a gross revenue conversion factor of
24 1.63. Rates should be reduced to produce a fair rate of return on rate base
25 of no more than 6.89% as summarized on Schedule 2 and supported by
26 CAPD witness Dr. Brown.
27
28
29

1 **Q. Are related party transactions cause for concern?**

2 A. Yes. Since rates were last examined for Atmos's consumers in 1995, the
3 former owner of the Tennessee franchise has been through two major
4 mergers or acquisitions. The current rates were set when United Cities Gas
5 served Tennessee's consumers. Shortly after the current rates were
6 approved, United Cities Gas was purchased by Atmos Energy Corporation.
7 In 2004, Atmos purchased the natural gas facilities of TXU. Since these
8 changes in ownership, significant changes have occurred in the way
9 business is conducted in Tennessee. For example, in 1995, all of the
10 customer service, accounting, and corporate management functions were
11 located in Tennessee. Since that time, almost all corporate functions have
12 been relocated to Texas. There has been no regulatory audit of the costs
13 being billed to Tennessee to verify the accuracy of the allocation of these
14 costs. There are no current service standards to determine whether these
15 changes have harmed consumers by reducing service or compromising the
16 safety and integrity of the gas distribution system in Tennessee. (Atmos
17 recently admitted meter reading violations and agreed to pay \$40,000 in
18 fines and donations for the failure to properly manage its meter reading
19 responsibilities. This situation may be a symptom of other service
20 deficiencies.)

21

22 In effect, neither Atmos's Tennessee rates nor service quality has ever been
23 reviewed for reasonableness. Some state regulatory authorities require
24 every utility to have rates reviewed periodically. Ten years is certainly too
25 long to wait especially since Atmos's own stated policy was "every two to five
26 years." It is time for a review in Tennessee. Companies have the right to
27 ask for a rate review. Consumers should have the same right.

28

29 Therefore, we recommend that the TRA supervise an independent audit of

1 Atmos's gas purchasing and resale policies, practices, procedures and
2 tariffs as well as its expense allocation policies, practices, and procedures.

3

4 **Q. Would you briefly summarize the results of other recent findings by the**
5 **TRA on the reasonable allowed profit levels for other companies?**

6 A. Yes. In the most recent case involving Chattanooga Gas Company (Docket
7 04-00034), the TRA found that a 10.2% return on equity was a reasonable
8 level of profits for a local natural gas distributor. After including the
9 weighted cost of debt, the total allowed return on rate base was 7.43%. This
10 decision was upheld after a motion for reconsideration on June 13, 2005.

11

12 In the previous major gas rate case (Docket 03-00313), Nashville Gas
13 Company was allowed a return on rate base of 8.42% to cover the total cost
14 of capital including debt cost.

15

16 In the latest major water rate case (Docket 04-00288), Tennessee American
17 Water was allowed a return on equity of 9.9% and a return on rate base of
18 7.76%.

19

20 **Q. Does Atmos Energy resemble the same company that was granted a**
21 **rate increase on November 15, 1995 in Docket No. 95-02258?**

22 A. No. Atmos serves the same areas in Tennessee, a few of the same
23 employees remain in Tennessee, and Atmos is reaping the profits from the
24 consumers in Tennessee formerly served by United Cities Gas Company.
25 However, since Atmos Energy acquired United Cities Gas Company in July
26 1997, many changes have taken place. Employee levels have declined,
27 customer service centers have been closed, almost all corporate accounting,
28 customer service and corporate operations have been relocated to Dallas
29 and Amarillo Texas. The cost of capital has certainly decreased due to

1 Atmos's acquisition of United Cities Gas and the subsequent refinancings
2 using lower cost debt. Atmos is a much larger company with revenues
3 exceeding \$2,920 Million (2004 Form 10-K) compared to United Cities Gas
4 company's revenues of \$281 Million (1994 Form 10-K). In other words,
5 today's Atmos is over 9 times larger and is structured much differently than
6 the company that was given a rate increase ten years ago. Yet Atmos has
7 never had a rate review in Tennessee; so these revenues and expenses
8 have never been formally reviewed in a rate case setting.

9
10 For example, the rates that Atmos is charging consumers today included
11 expenses for the employee levels that existed in 1995. Atmos is still
12 charging consumers as if those employees were being paid. Atmos is
13 taking these phantom wages to Texas as excess profits. The same problem
14 exists for other expenses such as interest expenses. UCG was paying over
15 11% interest on some debts in 1995 that have since been paid off.
16 Consumers are paying phantom interest expenses that no longer exist.

17
18 Moreover, in the fall of 2004, Atmos merged with TXU. This has started
19 another round of cost cutting as demonstrated by the fact that Atmos has
20 issued \$3.5 Billion of new debt at an interest rate of about 5.8%. This is a
21 lower cost than the cost of debt used on Schedule 2 and will raise Atmos's
22 earnings after September 30, 2004.

23
24 Since Atmos is clearly a different company than United Cities Gas Company,
25 the rates need to be reduced to reflect current costs.

26
27 **Q. Does this conclude your pre-filed direct testimony?**

28 **A. Yes.**

Q. What is your educational background and what degrees and licenses do you hold?

A. I have a Bachelor of Science Degree in Accounting from David Lipscomb College and I am a licensed Certified Public Accountant in the State of Tennessee.

Q. What is your experience in the field of ratemaking and regulatory accounting?

A. I have 29 years of experience in the field of utility ratemaking and regulatory accounting including more than two years with the Certified Public Accounting firm of Wilson, Work, Fossett & Greer as the supervisor in the utility consulting segment. I served sixteen years with the Tennessee Public Service Commission, including one year as Technical Assistant to the Commissioners. I served two years as Chief of Energy and Water at the Tennessee Regulatory Authority ("TRA") and nine years with the Office of the Attorney General. While employed by the Commission and the Attorney General's Office, I supervised the preparation of many utility rate cases and earnings reviews. As part of these investigations, we developed financial exhibits to present to the Commission or TRA. These investigations supplied evidence to the TRA to enable it to set just and reasonable rates for utility services. In addition, I participated in various special studies and provided technical assistance in other cases in which I did not testify.

As the Technical Assistant to the Commissioners I observed hearings and analyzed the issues in each case from an independent technical perspective. I responded to the Commissioners' requests for expert assistance in evaluating and interpreting the financial evidence in the record. I also provided and checked calculations based on that evidence. In each

position, my responsibilities have included making decisions on whether the information provided was adequate and suitable for deciding the questions presented.

My duties with the Consumer Advocate and Protection Division ("CAPD") are similar, but also include the review of various tariffs filed before the TRA. I assist in the decision making process as to whether the terms and conditions of the numerous filings are just and reasonable or whether additional evidence is needed to support the filings. When significant consumer interests appear to be in jeopardy, we investigate further and provide expert testimony before the TRA when needed.

Q. What expertise do you have related to the natural gas industry?

A. Since 1976 I have been involved in auditing gas companies, reviewing testimony, tariffs and exhibits, negotiating rates and preparing testimony and exhibits relating to various revenue, expense and rate base issues of all major Tennessee gas distribution companies. I have prepared testimony in every major case involving a gas utility since my employment with the Attorney General's office in 1994.

Atmos Energy Company
Revenue Deficiency (Surplus) at 8.2% Profit Rate
For the 12 Months Ended September 30, 2004

Line No			
1	Rate Base	150,905,600	A/
2	Operating Income at Present Rates	16,636,326	A/
3	Earned Rate of Return (L 1 / L 2)	11.02%	
4	Fair Rate of Return	6.89%	B/
5	Required Operating Income (L 1 x L 4)	10,397,396	
6	Operating Income Deficiency (Surplus) (L 5 - L 2)	(6,238,930)	
7	Gross Revenue Conversion Factor	<u>1.63</u>	C/
8	Revenue Deficiency (Surplus)	<u>(10,169,456)</u>	= \$ 27,862 per Day

A/ TRA Monthly Report Form 3 03 Supplemental Financial Data
B/ Schedule 2
C/ Estimated

Atmos Energy Company
Cost of Capital
Based on Comparable Companies' Capital Structures

<u>Line No.</u>	<u></u>	<u>Ratio</u>	<u>Cost</u>	<u>Weighted Cost</u>
1	Short Term Debt	12.80%	2.70%	0.35%
2	Long Term Debt	43.20%	6.80%	2.94%
3	Preferred Stock	1.00%	6.80%	0.07%
4	Stockholder's Equity	<u>43.00%</u>	8.20%	<u>3.53%</u>
5	Total	<u>100.00%</u>		<u>6.89%</u>

Source: Dr. Brown's Schedule 10

Atmos Energy Company
Revenue Deficiency (Surplus) at 10.2% Profit Rate
For the 12 Months Ended September 30, 2004

Line No			
1	Rate Base	150,905,600	A/
2	Operating Income at Present Rates	16,636,326	A/
3	Earned Rate of Return (L 1 / L 2)	11.02%	
4	Fair Rate of Return	7.75%	B/
5	Required Operating Income (L 1 x L 4)	11,695,184	
6	Operating Income Deficiency (Surplus) (L 5 - L 2)	(4,941,142)	
7	Gross Revenue Conversion Factor	<u>1.63</u>	C/
8	Revenue Deficiency (Surplus)	<u>(8,054,061)</u>	= \$ 22,066 per Day

A/ TRA Monthly Report Form 3.03 Supplemental Financial Data

B/ Schedule 4

C/ Estimated

Atmos Energy Company
Cost of Capital
Per Schedule 2 - Using TRA's Latest Cost of Equity

Line No.		Ratio	Cost	Weighted Cost
1	Short Term Debt	12.80%	2.70%	0.35%
2	Long Term Debt	43.20%	6.80%	2.94%
3	Preferred Stock	1.00%	6.80%	0.07%
4	Stockholder's Equity	<u>43.00%</u>	10.20% A/	<u>4.39%</u>
5	Total	<u>100.00%</u>		<u>7.75%</u>